

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF WEST BRANCH	County OGE MAW
Audit Date 06/30/2004	Opinion Date 09/03/2004	Date Accountant Report Submitted to State: 12/31/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

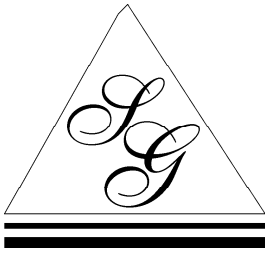
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).	✓		

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 317 W. HOUGHTON AVE, PO BOX 159	City WEST BRACH	State MI	ZIP 48661
Accountant Signature  <div style="float: right; font-size: small;"> Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.09.12 09:01:29 -0500 Reason: I am approving the document </div>			



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

CITY OF WEST BRANCH
OGEMAW COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2004

AUDITORS' REPORT

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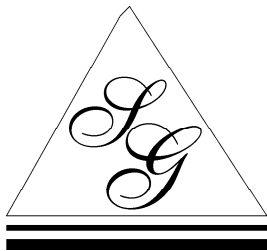
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Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
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E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

September 3, 2004

Independent Auditors' Report

Members of the City Council
City of West Branch
Ogemaw County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of West Branch, Ogemaw County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of West Branch's basic financial statements, as listed in the index. These financial statements are the responsibility of the City of West Branch's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Branch, Ogemaw County, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004, on our consideration of the City of West Branch's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the City of West Branch has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements -and Management's Discussion and Analysis-for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West Branch's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.

Offices:
East Tawas
West Branch

325 Newman Street, East Tawas, MI 48730
www.stephensongracik.com
989-362-4491 . 989-362-8351 Fax

Members:
A.I.C.P.A.
M.A.C.P.A.



City of West Branch

121 North Fourth Street • West Branch, Michigan 48661
(989) 345-0500 • Fax (989) 345-4390 • e-mail: cityhall@westbranch.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of West Branch's (the City) financial performance provides an overview of the City's financial activities for the year ended June 30, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole. The discussion focuses on the City's primary government. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34), omits certain comparative data that will be available in future years.

Financial Highlights

- The City's assets exceeded its liabilities by \$7,058,934 (*net assets*).
- The City's total net assets increased by \$849,201.
- The City's governmental funds reported combined ending fund balance of \$2,280,261 this year, a decrease of \$32,058. Of this amount, \$1,505,721 is available for spending (*unreserved fund balance*) on behalf of its citizens.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The City's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the City as a whole. These statements include the financial activities of the primary government except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or functions of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

With this report, capital assets are listed for the first time under GASB 34 for the City of West Branch. These assets are comprised of buildings and improvements, furniture, fixtures, radios/electronic equipment, computer systems, vehicles and land owned by the City. These assets total over \$6 million. The Deputy Treasurer performed a department-by-department inventory and evaluation of assets and categorized a depreciation schedule for assets not fully depreciated.

Fund Financial Statements

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental*, *Proprietary* and *Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

- General Fund – This fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.
- Major Street Fund – This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes.
- Local Street Fund – This fund is used to account for the maintenance and construction of the City's local street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes.
- Downtown Redevelopment Fund – This fund is used to account for federal and state grant resources used for parking lot construction and improvements in the Downtown area.
- Senior Citizen's Housing Program – This fund is used to account for the operation of a senior housing facility within the City.

- Housing Fund – This fund accounts for federal, state and local financing used to rehabilitate low income housing for qualified City residents.
- Civic Fund – This fund is used to account for revenue set aside for public improvements.
- CDBG Fund – This capital project fund is used to account for federal and state Community Development Block Grant funds restricted for construction projects benefiting low and moderate-income individuals in the City.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the City's major enterprise fund:

- Sewer Fund – This fund is used to record the revenues and expenses for the operation of the sewer system.
- Collection Replacement Fund – This fund is used to account for financial resources set aside for the maintenance and replacement of the sewer lines.
- Plant Replacement Fund – This fund is used to account for financial resources set aside for the maintenance and replacement of the wastewater treatment plant.
- Water Fund – This fund is used to record the revenues and expenses for the operation of the water system.
- Water Replacement Fund – This fund is used to account for financial resources set aside for the maintenance and replacement of the City's water system.

Internal Service Fund – This fund is used to record the financing of services provided by the one department or agency to other departments or agencies of the City, and to other governments on a cost reimbursement basis.

Fiduciary Funds: Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the City *government-wide* and *fund* financial statements. Exhibit K provides an expansive and thorough view of various aspects of the audited financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

Government -Wide Financial Analysis

Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government -wide data will be presented.

Summary of Net Assets:

The following summarizes the net assets of the City of West Branch at June 30, 2004:

Net Assets Summary

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>Total</u>
Current Assets	\$ 3,675,449	\$ 1,126,403	\$ 4,801,852
Capital Assets – net	<u>4,659,964</u>	<u>108,000</u>	<u>4,767,964</u>
Total Assets	<u>8,335,413</u>	<u>1,234,403</u>	<u>9,569,816</u>
Current Liabilities	507,986	17,695	525,681
Long-Term Liabilities	<u>1,916,551</u>	<u>68,650</u>	<u>1,985,201</u>
Total Liabilities	<u>2,424,537</u>	<u>86,345</u>	<u>2,510,882</u>
Net Assets			
Invested in Capital Assets, Net of Debt	2,948,403	39,500	2,987,903
Restricted	224,641	0	224,641
Unrestricted	<u>2,737,832</u>	<u>1,108,558</u>	<u>3,846,390</u>
Total Net Assets	<u>\$ 5,910,876</u>	<u>\$ 1,148,058</u>	<u>\$ 7,058,934</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for the year ended June 30, 2004. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to the prior year are not available. In future years, when prior year information is available, a comparative analysis of government -wide data will be presented.

Generally speaking, the City's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those

assets. The City of West Branch, through its governing body, i.e., the City Council, has taken a sensible approach regarding capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The City Council has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	Governmental Activities	Business -Type Activities	Total
Program Revenues:			
Charges for Services	\$ 832,004	\$ 617,542	\$ 1,449,546
Operating Grants and Contributions	527,041	0	527,041
Capital Grants and Contributions	<u>185,874</u>	<u>2,228</u>	<u>188,102</u>
Total Program Revenues	<u>1,544,919</u>	<u>619,770</u>	<u>2,164,689</u>
Program Expenses:			
General Government			
Legislative and Executive	80,177	0	80,177
Financial and Tax Administration	188,714	0	188,714
Other General Government	203,373	0	203,373
Public Safety	443,440	0	443,440
Public Works	479,307	0	479,307
Health and Welfare	17,617	0	17,617
Community and Economic Development	605,525	0	605,525
Recreation and Cultural	50,471	0	50,471
Other Expenses	93,837	0	93,837
Loss on Sale of Capital Assets	65,247	0	65,247
Interest on Long-Term Debt	92,607	0	92,607
Sewer Services	0	339,259	339,259
Sewer Collection Replacement	0	1,074	1,074
Sewer Plant Replacement	0	1,074	1,074
Water Services	0	87,732	87,732
Water Replacement	<u>0</u>	<u>2,148</u>	<u>2,148</u>
Total Program Expenses	<u>2,320,315</u>	<u>431,287</u>	<u>2,751,602</u>
Net Program Expenses	<u>(775,396)</u>	<u>188,483</u>	<u>(586,913)</u>
General Revenues:			
Property Taxes	898,417	0	898,417
State Revenue Sharing	381,840	0	381,840
Investment earnings and miscellaneous	127,556	28,301	155,857
Transfers In (Out)	<u>119,336</u>	<u>(119,336)</u>	<u>0</u>
Total General Revenues and Transfers	<u>1,527,149</u>	<u>(91,035)</u>	<u>1,436,114</u>
Change in Net Assets	<u>\$ 751,753</u>	<u>\$ 97,448</u>	<u>\$ 849,201</u>

Governmental Activities

With GASB 34 implementation, this new component of reporting reflects the *Statement of Activities* and illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$1,544,919 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are fees for services or facilities provided, primarily rental revenue from the Senior High-Rise, and loans to City residents for qualified housing rehabilitation. While revenue collected is substantial, operating expenses totaled \$2,320,315 for these same activities. The largest expenses were incurred by the Housing Fund, Senior Citizens Housing Program, Police Department and Public Works Department.

Business-Type Activities

City of West Branch's *Business-Type activities* are limited to the Sewer Fund, Collection Replacement Fund, Plant Replacement Fund, Water Fund, and Water Replacement Fund. These funds are used to maintain the City's Water and Sewer systems. The funds are supported primarily by user fees for water and sewer services.

Financial Analysis of City Funds

As noted earlier in this report, the City uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund; 2) Major Street Fund – accounts for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes; 3) Local Street Fund – accounts for the maintenance and construction of the City's local street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes; 4) Downtown Redevelopment Fund – accounts for federal and state grant resources used for parking lot construction and improvements in the Downtown area; 5) Senior Citizens Housing Program – accounts for the operation of a senior housing facility within the City; 6) Housing Fund – accounts for federal, state and local financing used to rehabilitate low income housing for qualified City residents; 7) Civic Fund – accounts for revenue set aside for public improvements; 8) CDBG Fund – accounts for federal and state Community Development Block Grant funds restricted for construction projects benefiting low and moderate-income individuals in the City.

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

This year's City audit, following GASB 34 format, shows 24 governmental funds. These funds are maintained by the City Treasurer as separate units in the General Ledger. Some of the funds were eliminated in 2003 due to GASB 34 requirements. If a fund was not statutorily required, it was combined with its main fund. Those specific funds reveal no revenue/expenditure.

Enterprise Funds

The City's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, departments such as the Sewer Fund, Collection Replacement Fund, Plant Replacement Fund, Water Fund, Water Replacement Fund, and Internal Service Funds comprise these funds. GASB 34 places such funds under the caption of *Propriety Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc. More specific detail is seen in Exhibits G, H and I.

Budgetary Highlights

The fiscal year ending June 30, 2004 was an interesting and financially solvent year for the City of West Branch. Both external and internal pressures forced the board, elected officials, department heads, and employees to work cohesively and in collaboration to mitigate potential problems.

The City began the year with a \$261,466 general fund balance. At year's end, that balance had declined to \$204,684, a decrease of \$56,782. Additional fund deficits were noted in the Downtown Redevelopment Fund. Additional documentation was submitted to the grantor, and all grant funds were received subsequent to year-end. The General Fund actual revenue of \$1,284,279 versus budgeted revenue of \$1,150,919 netted a favorable variance of \$133,360. Actual expenditures of the General Fund were \$1,270,629 versus budgeted expenditures of \$1,257,162 showed an unfavorable variance of \$13,467.

Capital Asset and Debt Administration

Capital Assets

Of primary interest with this year's City financial statement is the inclusion of "capital assets." Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The City's infrastructure consists of roads, bridges, dams, and water/sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$6,129,682 with an ending balance of \$6,303,303. Governmental Activities Total Capital Assets – Net of Depreciation was \$4,659,964.

Capital Assets - Business Type Activities beginning and ending balance was \$150,000. Business-Type Activities Total Capital Assets – Net of Depreciation was \$108,000. An expanded and detailed presentation may be seen in Note 7 of the audit, notes to financial statements.

Long-Term Debt

The Long-Term debt of the City of West Branch, as noted on the financial statements contained herein, is comprised of debt related to direct business transactions by the City Council or business trade activity on the part of a local unit of government.

The sewer system infrastructure debt is “booked” to the City of West Branch, but the infrastructure assets are shown on the County’s Statement of Net Assets until such time as the bonds are paid off. At the time of the bond payoff, the title will transfer to the City and the infrastructure assets will be removed from the County’s statement of net assets, and added to the City’s statement of net assets.

At year’s end, long-term debt (due in more than one year) amounted to \$1,661,753. Such debt includes *Notes Payable*, *Bonds Payable*, *Contracts Payable*, as well as *Compensated Absences*. That is, accumulated sick leave benefits of its employees.

Economic Factors

The West Branch region has realized significant growth in the last ten years. However, developable property within the City of West Branch is limited resulting in a tax base that is not keeping up with increased operation and maintenance costs.

Lower investment earnings and tentative state and federal economies will provide future challenges.

City budgetary operations will continue to be stressed in the upcoming years, especially in the environment of declining state aid and stagnant tax revenues. These factors will cause the City to adopt a fiscally conservative budgetary approach for the upcoming years.

Requests for Information

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City Treasurer
City of West Branch
121 N. Fourth Street
West Branch, MI 48661
989-345-0500

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF NET ASSETS
June 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents (Note 3)	\$ 1,869,719	\$ 962,355	\$ 2,832,074
Investments (Note 3)	1,057,262	0	1,057,262
Receivables:			
Accounts, net	2,945	161,784	164,729
Due from local units	44	0	44
Due from other governments	44,989	2,518	47,507
Internal balances (Note 5)	254	(254)	0
Inventory	2,210	0	2,210
Long-term mortgages receivable (Note 1)	698,026	0	698,026
Capital assets, net (Note 7)	4,659,964	108,000	4,767,964
Total Assets	<u>8,335,413</u>	<u>1,234,403</u>	<u>9,569,816</u>
<u>Liabilities</u>			
Accounts payable	331,945	11,925	343,870
Accrued liabilities	15,152	0	15,152
Security deposits	9,641	0	9,641
Accrued interest payable	59,531	0	59,531
Escrow account	39,384	4,670	44,054
Deferred revenue (Note 6)	52,333	1,100	53,433
Long-term liabilities:			
Due within one year (Note 8)	307,298	16,150	323,448
Due in more than one year (Note 8)	1,609,253	52,500	1,661,753
Total Liabilities	<u>2,424,537</u>	<u>86,345</u>	<u>2,510,882</u>
<u>Net Assets</u>			
Investment in capital assets, net of related debt	2,948,403	39,500	2,987,903
Restricted for:			
Debt service	73,481	0	73,481
Capital projects	151,160	0	151,160
Perpetual care	523,028	0	523,028
Unrestricted	2,214,804	1,108,558	3,323,362
Total Net Assets	<u>\$ 5,910,876</u>	<u>\$ 1,148,058</u>	<u>\$ 7,058,934</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government:							
Legislative and executive	\$ 80,177	\$ 0	\$ 0	\$ 0	\$ (80,177)	\$ 0	\$ (80,177)
Financial and tax administration	188,714	0	0	0	(188,714)	0	(188,714)
Other general government	203,373	26,938	1,627	0	(174,808)	0	(174,808)
Public safety:							
Police	414,144	34,053	52,927	14,205	(312,959)	0	(312,959)
Fire	21,723	789	0	0	(20,934)	0	(20,934)
Other public safety	7,573	0	0	0	(7,573)	0	(7,573)
Public works:							
Solid waste	115,536	0	0	0	(115,536)	0	(115,536)
Airport	23,549	0	0	0	(23,549)	0	(23,549)
Other public works	340,222	1,569	0	0	(338,653)	0	(338,653)
Health and welfare	17,617	12,956	0	0	(4,661)	0	(4,661)
Community and economic development	605,525	755,699	456,231	145,000	751,405	0	751,405
Recreation and cultural	73,533	0	16,256	26,669	(30,608)	0	(30,608)
Other expenses	93,837	0	0	0	(93,837)	0	(93,837)
Loss on sale of capital assets	65,247	0	0	0	(65,247)	0	(65,247)
Interest on long-term debt	92,607	0	0	0	(92,607)	0	(92,607)
Total governmental activities	2,343,377	832,004	527,041	185,874	(798,458)	0	(798,458)
Business-type activities:							
Sewer services	339,259	482,744	0	0	0	143,485	143,485
Sewer collection replacement	1,074	0	0	0	0	(1,074)	(1,074)
Sewer plant replacement	1,074	0	0	0	0	(1,074)	(1,074)
Water services	87,732	134,798	0	2,228	0	49,294	49,294
Water replacement	2,148	0	0	0	0	(2,148)	(2,148)
Total business-type activities	431,287	617,542	0	2,228	0	188,483	188,483
Total primary government	\$ 2,774,664	\$ 1,449,546	\$ 527,041	\$ 188,102	(798,458)	188,483	(609,975)
General Revenues:							
Property taxes levied for:							
General operating					639,049	0	639,049
Debt service					107,059	0	107,059
Refuse					152,309	0	152,309
State revenue sharing					381,840	0	381,840
Investment earnings					67,411	13,595	81,006
Other					60,145	14,706	74,851
Transfers - internal activity					119,336	(119,336)	0
Total general revenues and transfers					1,527,149	(91,035)	1,436,114
Change in net assets					728,691	97,448	826,139
Net assets - beginning of year					5,159,123	1,050,610	6,209,733
Net assets - end of year					\$ 5,887,814	\$ 1,148,058	\$ 7,035,872

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
June 30, 2004

	General	Major Streets	Local Streets	Downtown Redevelopment	Senior Citizens Housing Program	Housing Fund	Civic Fund	CDBG Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>										
Cash and cash equivalents (Note 3)	\$ 102,642	\$ 274,376	\$ 144,006	\$ 0	\$ 71,178	\$ 124,866	\$ 36,913	\$ 251,160	\$ 464,413	\$ 1,469,554
Investments (Note 3)	0	0	0	0	0	0	606,080	0	451,182	1,057,262
Receivables:										
Accounts receivable	1,943	95	0	0	0	0	0	0	907	2,945
State of Michigan	27,147	9,392	3,452	0	0	0	0	0	0	39,991
Federal government	4,998	0	0	0	0	0	0	0	0	4,998
Due from other funds (Note 5)	105,129	244	0	0	0	2,775	17,181	0	0	125,329
Inventory	0	0	0	0	2,210	0	0	0	0	2,210
Long-term mortgages (Note 1)	0	0	0	0	0	698,026	0	0	0	698,026
Total Assets	\$ 241,859	\$ 284,107	\$ 147,458	\$ 0	\$ 73,388	\$ 825,667	\$ 660,174	\$ 251,160	\$ 916,502	\$ 3,400,315
<u>LIABILITIES AND FUND EQUITY</u>										
<u>Liabilities</u>										
Accounts payable	\$ 22,023	\$ 574	\$ 576	\$ 14,146	\$ 3,180	\$ 75,237	\$ 0	\$ 61,454	\$ 3,297	\$ 180,487
Accrued liabilities	15,152	0	0	0	0	0	0	0	0	15,152
Security deposits	0	0	0	0	9,641	0	0	0	0	9,641
Escrow account	0	0	0	0	838	0	0	38,546	0	39,384
Due to other funds (Note 5)	0	0	244	103,634	17,181	0	0	0	3,972	125,031
Deferred revenue (Note 6)	0	0	0	0	0	750,359	0	0	0	750,359
Total liabilities	37,175	574	820	117,780	30,840	825,596	0	100,000	7,269	1,120,054
<u>Fund Equity</u>										
Fund balances:										
Reserved:										
For debt service	0	0	0	0	0	0	0	0	73,481	73,481
For capital projects	0	0	0	0	0	0	0	151,160	0	151,160
For replacement	0	0	0	0	0	0	0	0	26,871	26,871
For perpetual care	0	0	0	0	0	0	0	0	523,028	523,028
Unreserved - undesignated (deficit)	204,684	283,533	146,638	(117,780)	42,548	71	660,174	0	285,853	1,505,721
Total fund equity	204,684	283,533	146,638	(117,780)	42,548	71	660,174	151,160	909,233	2,280,261
Total Liabilities and Fund Equity	\$ 241,859	\$ 284,107	\$ 147,458	\$ 0	\$ 73,388	\$ 825,667	\$ 660,174	\$ 251,160	\$ 916,502	\$ 3,400,315

The accompanying notes to financial statements are in integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2004

Total governmental fund balances:		\$ 2,280,261
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:		
Capital asset cost	\$ 6,303,303	
Capital asset accumulated depreciation	<u>(1,643,339)</u>	
		4,659,964
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:		
Long-term mortgages receivable		698,026
Accrued interest on long-term debt		(59,531)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Bonds payable	(1,520,000)	
Notes payable	(189,776)	
Contracts payable	(205,500)	
Compensated absences payable	<u>(1,275)</u>	
Total long-term liabilities		(1,916,551)
Some amounts reported for governmental activities in the statement of net assets are different because the internal service funds assets and liabilities are included with governmental activities.		
		<u>248,707</u>
Total net assets - governmental activities		<u>\$ 5,910,876</u>

The accompanying notes to financial statements are in integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	General	Major Streets	Local Streets	Downtown Redevelopment	Senior Citizens Housing Program	Housing Fund	Civic Fund	CDBG Fund	Other Governmental Funds	Total Governmental Funds
Revenue										
Taxes	\$ 782,516	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 115,901	\$ 898,417
Federal grants	34,556	0	0	45,000	222,405	233,826	0	0	0	535,787
State grants and revenue	248,798	139,549	41,994	0	0	0	0	0	4,370	434,711
Contributions from local units	0	0	0	0	0	0	0	0	20,457	20,457
Charges for services	119,176	0	0	0	0	0	0	182,500	90,160	391,836
Fines and forfeits	24,923	0	0	0	0	0	0	0	0	24,923
Interest and rentals	6,292	1,796	850	0	122,823	806	28,608	0	27,990	189,165
Other revenue	68,018	1,361	208	0	5,434	14,049	17,181	0	9,987	116,238
Total revenue	1,284,279	142,706	43,052	45,000	350,662	248,681	45,789	182,500	268,865	2,611,534
Expenditures										
Current:										
Legislative and executive	86,063	0	0	0	0	0	0	0	0	86,063
Financial and tax administration	188,624	0	0	0	0	0	0	0	0	188,624
General government	156,272	0	0	0	0	0	0	0	36,186	192,458
Public safety	442,276	0	0	0	0	0	0	0	6,199	448,475
Public works	303,973	67,877	43,377	0	0	0	0	0	0	415,227
Health and welfare	0	0	0	0	0	0	0	0	18,809	18,809
Community and economic development	30,783	0	0	5,732	197,697	248,681	0	31,340	50,960	565,193
Recreation and cultural	55,312	0	0	0	0	0	0	0	0	55,312
Other	0	0	0	0	0	0	0	0	92,537	92,537
Capital outlay	0	0	0	237,048	0	0	0	0	0	237,048
Debt service:										
Principal	5,000	0	0	0	0	0	0	0	255,750	260,750
Interest and fiscal charges	2,326	0	0	0	0	0	0	0	102,328	104,654
Total expenditures	1,270,629	67,877	43,377	242,780	197,697	248,681	0	31,340	562,769	2,665,150
Excess of revenue over (under) expenditures	13,650	74,829	(325)	(197,780)	152,965	0	45,789	151,160	(293,904)	(53,616)
Other Financing Sources (Uses):										
Operating transfers in	0	0	21,275	80,000	0	0	0	0	324,330	425,605
Operating transfers out	(70,432)	(45,522)	0	0	(146,518)	0	(76,867)	0	(64,708)	(404,047)
Total other financing sources (uses)	(70,432)	(45,522)	21,275	80,000	(146,518)	0	(76,867)	0	259,622	21,558
Excess of revenue and other sources over (under) expenditures and other uses	(56,782)	29,307	20,950	(117,780)	6,447	0	(31,078)	151,160	(34,282)	(32,058)
Fund balances - beginning of year	261,466	254,226	125,688	0	36,101	71	691,252	0	943,515	2,312,319
Fund balances (deficit) - end of year	\$ 204,684	\$ 283,533	\$ 146,638	\$ (117,780)	\$ 42,548	\$ 71	\$ 660,174	\$ 151,160	\$ 909,233	\$ 2,280,261

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Total net change in fund balances - governmental funds	\$	(32,058)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	\$	(186,094)
Capital assets reported as capital outlays in the governmental funds		426,424
Loss on sale of asset		<u>(247,747)</u>
Net difference		(7,417)

Principal repayments on notes, bonds and contracts are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:

Bonds payable	210,000	
Notes payable	5,000	
Contracts payable	45,750	
Loan forgiveness on Michigan Economic Development Loan	<u>100,000</u>	
Net difference		360,750

Some revenue reported in the statement of activities does not meet availability requirements for current financial resources, and, therefore, is not reported as revenue in the governmental funds:

Long-term mortgages receivable		512,644
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Accrued interest on long-term liabilities	8,421	
Net change in accrued compensated absences:		
Accrued compensated absences June 30, 2003	1,065	
Accrued compensated absences June 30, 2004	<u>(1,275)</u>	
Net change		8,211

Some amounts reported for governmental activities in the statement of net assets are different because the internal service funds revenue and expenses are included with governmental activities.

(90,377)

Change in net assets of governmental activities	\$	<u>751,753</u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
June 30, 2004

	Enterprise Funds						Governmental
	Major Funds						Activity
	Sewer Fund	Collection Replacement Fund	Plant Replacement Fund	Water Fund	Water Replacement Fund	Total	Internal Service Fund
<u>Assets</u>							
Cash and cash equivalents (Note 3)	\$ 18,581	\$ 218,463	\$ 210,996	\$ 184,526	\$ 329,789	\$ 962,355	\$ 400,165
Receivables:							
Accounts receivable	121,518	0	0	40,266	0	161,784	0
Due to other funds	0	0	0	2,518	0	2,518	0
Capital assets, net (Note 7)	0	0	0	108,000	0	108,000	0
Total Assets	<u>140,099</u>	<u>218,463</u>	<u>210,996</u>	<u>335,310</u>	<u>329,789</u>	<u>1,234,657</u>	<u>400,165</u>
<u>Liabilities</u>							
Current liabilities:							
Accounts payable	9,135	0	0	1,101	1,689	11,925	151,458
Escrow account	3,151	0	0	1,519	0	4,670	0
Due to other agencies and individuals	0	0	0	0	0	0	0
Due to other funds (Note 5)	254	0	0	0	0	254	0
Deferred revenue	0	0	0	1,100	0	1,100	0
Compensated absences - current (Note 8)	150	0	0	0	0	150	0
Contract payable - current (Note 8)	0	0	0	16,000	0	16,000	0
Total current liabilities	<u>12,690</u>	<u>0</u>	<u>0</u>	<u>19,720</u>	<u>1,689</u>	<u>34,099</u>	<u>151,458</u>
Noncurrent liabilities:							
Contract payable (Note 8)	0	0	0	52,500	0	52,500	0
Total Liabilities	<u>12,690</u>	<u>0</u>	<u>0</u>	<u>72,220</u>	<u>1,689</u>	<u>86,599</u>	<u>151,458</u>
<u>Net Assets</u>							
Invested in capital assets, net of related debt	0	0	0	39,500	0	39,500	0
Unrestricted	<u>127,409</u>	<u>218,463</u>	<u>210,996</u>	<u>223,590</u>	<u>328,100</u>	<u>1,108,558</u>	<u>248,707</u>
Total Net Assets	<u>\$ 127,409</u>	<u>\$ 218,463</u>	<u>\$ 210,996</u>	<u>\$ 263,090</u>	<u>\$ 328,100</u>	<u>\$ 1,148,058</u>	<u>\$ 248,707</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Enterprise Funds					Governmental
	Major Funds					Activity
	Sewer Fund	Collection Replacement Fund	Plant Replacement Fund	Water Fund	Water Replacement Fund	Internal Service Fund
					Total	
<u>Operating Revenue</u>						
Charges for services	\$ 482,744	\$ 0	\$ 0	\$ 125,848	\$ 0	\$ 608,592
Equipment rental	0	0	0	8,950	0	177,526
Miscellaneous	7,143	0	0	9,791	0	16,934
Total operating revenue	489,887	0	0	144,589	0	634,476
<u>Operating Expenses</u>						
Salaries and wages	102,949	0	0	31,998	0	134,947
Fringe benefits	53,064	0	0	3,500	0	56,564
Administration	57,786	0	0	13,909	0	71,695
Building and equipment maintenance	30,604	0	0	0	0	30,604
Contractual services	41,361	1,074	1,074	19,608	2,148	65,265
Equipment rental	12,057	0	0	14,026	0	26,083
Gas and oil	0	0	0	0	0	0
Insurance	22,920	0	0	0	0	22,920
Operating supplies and expenses	17,786	0	0	9,262	0	27,048
Professional development	560	0	0	845	0	1,405
Telephone	1,472	0	0	0	0	1,472
Utilities	65,073	0	0	9,885	0	74,958
Other	3,470	0	0	2,667	0	6,137
Capital outlay	0	0	0	0	0	0
Depreciation	0	0	0	6,000	0	6,000
Total operating expenses	409,102	1,074	1,074	111,700	2,148	525,098
Operating income (loss)	80,785	(1,074)	(1,074)	32,889	(2,148)	109,378
<u>Non-Operating Revenue (Expenses)</u>						
Interest income	2,369	2,342	2,243	3,075	3,566	13,595
Interest expense	0	0	0	(3,967)	0	(3,967)
Total non-operating revenue (expenses)	2,369	2,342	2,243	(892)	3,566	9,628
Income (loss) before operating transfers	83,154	1,268	1,169	31,997	1,418	119,006
Other Financing Sources (Uses):						
Operating transfers in	0	50,000	50,000	19,217	75,000	194,217
Operating transfers out	(140,775)	0	0	(75,000)	0	(215,775)
Net operating transfers	(140,775)	50,000	50,000	(55,783)	75,000	(21,558)
Change in net assets	(57,621)	51,268	51,169	(23,786)	76,418	97,448
Net assets - beginning of year, as restated (Note 2)	185,030	167,195	159,827	286,876	251,682	1,050,610
Net assets - end of year	\$ 127,409	\$ 218,463	\$ 210,996	\$ 263,090	\$ 328,100	\$ 1,148,058

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Enterprise Funds					Governmental
	Major Funds					Activity
	Sewer Fund	Collection Replacement Fund	Plant Replacement Fund	Water Fund	Water Replacement Fund	Internal Service Fund
					Total	
<u>Cash Flows From Operating Activities</u>						
Receipts from customers	\$ 490,796	\$ 0	\$ 0	\$ 146,986	\$ 0	\$ 180,914
Payments for operating expenses	(408,332)	(1,074)	(1,074)	(123,855)	(975)	(127,323)
Net cash provided (used) by operating activities	82,464	(1,074)	(1,074)	23,131	(975)	53,591
<u>Cash Flows From Noncapital Financing Activities</u>						
Operating subsidies and transfers from (to) other funds	(140,521)	50,000	50,000	(53,211)	72,428	0
Net cash provided (used) by noncapital financing activities	(140,521)	50,000	50,000	(53,211)	72,428	0
<u>Cash Flows From Capital and Related Financing Activities</u>						
Principal paid on long-term debt	0	0	0	(15,250)	0	0
Interest paid on long-term debt	0	0	0	(3,967)	0	0
Net cash used by capital and related financing activities	0	0	0	(19,217)	0	0
<u>Cash Flows From Investing Activities</u>						
Cash received from interest	2,369	2,342	2,243	3,075	3,566	4,757
Net increase (decrease) in cash and cash equivalents	(55,688)	51,268	51,169	(46,222)	75,019	58,348
Cash and cash equivalents at beginning of year (Note 1)	74,269	167,195	159,827	230,748	254,770	341,817
Cash and cash equivalents at end of year (Note 1)	\$ 18,581	\$ 218,463	\$ 210,996	\$ 184,526	\$ 329,789	\$ 400,165
<u>Reconciliation of operating income to net cash provided by operating activities</u>						
Operating income (loss)	\$ 80,785	\$ (1,074)	\$ (1,074)	\$ 32,889	\$ (2,148)	\$ 109,378
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation expense	0	0	0	6,000	0	0
Change in assets and liabilities:						
Accounts receivable, net	909	0	0	2,397	0	0
Accounts and other payables	620	0	0	(18,155)	1,173	148,725
Accrued expenses	150	0	0	0	0	0
Net cash provided (used) by operating activities	\$ 82,464	\$ (1,074)	\$ (1,074)	\$ 23,131	\$ (975)	\$ 53,591

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
June 30, 2004

	<u>Tax Collection</u>	<u>Payroll Clearing Fund</u>	<u>Senior Activity Account</u>	<u>Fort Austin</u>	<u>Irons Park Entertainment</u>	<u>Group Work Camps</u>
<u>ASSETS</u>						
Cash and cash equivalents (Note 3)	\$ 66	\$ 3,716	\$ 1,733	\$ 19,731	\$ 10,129	\$ 1,302
Total Assets	<u>\$ 66</u>	<u>\$ 3,716</u>	<u>\$ 1,733</u>	<u>\$ 19,731</u>	<u>\$ 10,129</u>	<u>\$ 1,302</u>
<u>LIABILITIES</u>						
Accounts payable	\$ 22	\$ 0	\$ 0	\$ 0	\$ 199	\$ 0
Escrow account	0	3,716	0	0	0	0
Due to other agencies and individuals	0	0	1,733	19,731	9,930	1,302
Due to other funds (Note 5)	<u>44</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>\$ 66</u>	<u>\$ 3,716</u>	<u>\$ 1,733</u>	<u>\$ 19,731</u>	<u>\$ 10,129</u>	<u>\$ 1,302</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of West Branch conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Description of City Operations and Fund Types

The City of West Branch is governed by an elected council with a City Manager overseeing daily operations. The City provides various services to its residents such as law enforcement, fire protection, community enrichment and human services.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading. The primary government of the City consists of all funds, departments, board, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs of services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

While the following organizations had positive responses to some of the above criteria, each is excluded from the accompanying financial statements for the reasons specified:

- West Branch Regional Medical Center – The City Council appoints the governing board, but the hospital is otherwise independently operated and financed.
- West Branch Community Airport – The airport is a joint venture between Ogemaw County and the City. A separate board is appointed and the airport is operated independent of the County and City.
- Ogemaw Fire Board – The fire board is a joint venture with five other local units. The City appoints one of the six board members, but the fire board is otherwise operated independent of the City.

West Branch Public Library – The City prepares all the bookkeeping and provides all the employees of the Library. However, the City has only one voting representative on the five member District Library Board.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

D. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE D)

D. Fund Accounting (Continued)

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund – This fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

Major Street Fund – This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes.

Local Street Fund – This fund is used to account for the maintenance and construction of the City's local street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes.

Downtown Redevelopment Fund – This fund is used to account for federal and state grant resources used for parking lot construction and improvements in the Downtown area.

Senior Citizen's Housing Program – This fund is used to account for the operation of a senior housing facility within the City.

Housing Fund – This fund accounts for federal, state and local financing used to rehabilitate low income housing for qualified City residents.

Civic Fund – This fund is used to account for revenue set aside for public improvements.

CDBG Fund – This capital project fund is used to account for federal and state Community Development Block Grant funds restricted for construction projects benefiting low and moderate-income individuals in the City.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund – This fund is used to record the revenues and expenses for the operation of the sewer system.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

Proprietary Funds (Continued)

Collection Replacement Fund – This fund is used to account for financial resources set aside for the maintenance and replacement of the sewer lines.

Plant Replacement Fund – This fund is used to account for financial resources set aside for the maintenance and replacement of the wastewater treatment plant.

Water Fund – This fund is used to record the revenues and expenses for the operation of the water system.

Water Replacement Fund – This fund is used to account for financial resources set aside for the maintenance and replacement of the City's water system.

Internal Service Fund - This fund is used to record the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments on a cost reimbursement basis.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

E. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus

Fund Financial Statements (Continued)

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenue, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

F. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and enterprise fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days after year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest, and rent.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Basis of Accounting (Continued)

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements were met have been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

G. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The City does not maintain a formalized encumbrance accounting system.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council prior to June 1 a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenue, expenditures and changes in fund balances – budget and actual – general and special revenue funds.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by City Council resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the statement of revenue, expenditures and changes in fund balances – budget and actual for the general and each major special revenue fund.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets and Budgetary Accounting (Continued)

4. The City Manager is authorized to transfer budget amounts between major expenditure functions within any fund. However, these transfers and any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year.

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value. Repurchase agreements and certificates of deposit, which are reported at cost, approximate fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

I. Accounts Receivables

Receivables at June 30, 2004, consist of accounts (fees), sales taxes, shared revenues, property taxes, mortgage receivable, special assessments and intergovernmental grants and interest. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at June 30, 2004 was \$0 for the primary government.

J. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances".

K. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Inventory

Inventory is expensed when purchased, except for the Senior Citizen's Housing Fund where inventory is priced at cost as determined by the first-in, first-out method. Inventory consists of expendable supplies held for consumption.

M. Long-Term Mortgages

Long-term mortgages represent amounts due from individuals for housing loans and grants received, and are reported at their gross value.

N. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City's infrastructure consists of roads, bridges, dams, and water and sewer lines. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 years
Dams	50 years
Radio Towers	10 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

O. Compensated Absences

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. Employees are compensated for unused sick days in excess of sixty (60) days, at the rate of \$15 per day on December 1 each year. The City records a liability for sick leave earned depending on the City policy.

The entire compensated absences liability is reported on the government-wide financial statements.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Compensated Absences (Continued)

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "accrued compensated absences payable" in the fund from which the employees who have accumulated leave as paid. The noncurrent portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

P. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

Q. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

R. Governmental Fund Balance Reserves

The City reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. The purpose of the reserve is to provide a cash reserve for major emergency replacements and/or repairs to facilities or equipment, future debt service and perpetual care expenses.

S. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the City, these revenues are user fees for sewer and water usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

U. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

V. Reclassification

Certain amounts for the year ended June 30, 2003 have been reclassified to conform with the current year presentation.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY

A. Change in Accounting Principles

For June 30, 2004, the City has implemented Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the City's programs between governmental activities and business-type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental and enterprise funds at June 30, 2004, caused by the conversion to the accrual basis of accounting and GASB 34.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY (CONTINUED)

B. Restatement of Fund Equity

The restatement due to the implementation of the above statements and interpretation had the following effects on fund equity of the water fund of the City as it was previously reported.

	<u>Water Fund</u>
Retained Earnings June 30, 2003	\$ 172,876
GASB Statement No. 34 Adjustment: Capitalization of water infrastructure	150,000
Accumulated depreciation on water infrastructure	<u>(36,000)</u>
Restated Net Assets – June 30, 2003	<u>\$ 286,876</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 1,869,719	\$ 962,355	\$ 36,677	\$ 2,868,751
Investments	<u>1,057,262</u>	<u>0</u>	<u>0</u>	<u>1,057,262</u>
	<u>\$ 2,926,981</u>	<u>\$ 962,355</u>	<u>\$ 36,677</u>	<u>\$ 3,926,013</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 3,925,713
Petty Cash and Cash on Hand	<u>300</u>
Total	<u>\$ 3,926,013</u>

CITY OF WEST BRANCH
Ogemaw County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits:

Deposits are carried at cost. Deposits of the City are held at various banks in the name of the City. At June 30, 2004, the carrying amounts of the City's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 400,000	\$ 400,000
Uninsured – uncollateralized	<u>3,525,713</u>	<u>3,522,171</u>
Total primary government	<u>\$ 3,925,713</u>	<u>\$ 3,922,171</u>

Investments:

The City Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits are in accordance with statutory authority.

NOTE 4 - PROPERTY TAXES

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on July 31 with the final collection date of February 28 before they are added to the County tax rolls. The City receives payment for these taxes from the County after final settlement of the tax rolls. The delinquent personal property taxes are not purchased by the County.

For the current year, the taxable value for properties located within the City was \$50,784,841. The tax rates were 11.39 mills for operations, 2.90 mills for garbage collection, 1.67 mills for street improvement debt, and .39 mills for senior center.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 105,129	\$ 0
Major Street Fund	244	0
Local Street Fund	0	244
Downtown Redevelopment Fund	0	103,634
Senior Citizens Housing Program Fund	0	17,181
Housing Fund	2,775	0
Civic Fund	<u>17,181</u>	<u>0</u>
Total Major Governmental Funds	125,329	121,059
Non-major Governmental Funds	0	3,972
Major Enterprise Fund:		
Sewer Fund	0	254
Fiduciary Funds	<u>0</u>	<u>44</u>
	<u>\$ 125,329</u>	<u>\$ 125,329</u>

The amounts of interfund receivables and payables for individual funds as of June 30, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
<u>Primary Government</u>		<u>Primary Government</u>	
General Fund	\$ 164	Senior Center Fund	\$ 164
General Fund	100,859	Downtown Redevelopment Fund	100,859
General Fund	3,808	Street Improvement Debt Service Fund	3,808
General Fund	44	Tax Collection Fund	44
Major Streets Fund	244	Local Streets Fund	244
General Fund	254	Sewer Fund	254
Housing Fund	2,775	Downtown Redevelopment Fund	2,775
Civic Fund	<u>17,181</u>	Senior Housing Program Fund	<u>17,181</u>
Total	<u>\$ 125,329</u>	Total	<u>\$ 125,329</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 6 - DEFERRED REVENUE

Governmental funds report deferred revenues in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Mortgages Receivable	\$ 698,026	\$ 0	\$ 698,026
Received from State	<u>0</u>	<u>52,333</u>	<u>52,333</u>
Total	<u>\$ 698,026</u>	<u>\$ 52,333</u>	<u>\$ 750,359</u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Government Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated :				
Land	\$ 917,967	\$ 54,627	\$ 50,560	\$ 922,034
Construction in Progress	<u>0</u>	<u>182,421</u>	<u>0</u>	<u>182,421</u>
Subtotal	<u>917,967</u>	<u>237,048</u>	<u>50,560</u>	<u>1,104,455</u>
Capital Assets Being Depreciated :				
Buildings	3,263,928	0	202,243	3,061,685
Improvements Other Than Buildings	225,000	0	0	225,000
Machinery and Equipment	294,068	150,000	0	444,068
Vehicles	158,719	39,376	0	198,095
Infrastructure	<u>1,270,000</u>	<u>0</u>	<u>0</u>	<u>1,270,000</u>
Subtotal	<u>5,211,715</u>	<u>189,376</u>	<u>202,243</u>	<u>5,198,848</u>
Less Accumulated Depreciation on for:				
Buildings	899,975	72,792	5,056	967,711
Improvements Other Than Buildings	131,667	5,000	0	136,667
Machinery and Equipment	54,731	40,751	0	95,482
Vehicles	103,928	29,051	0	132,979
Infrastructure	<u>272,000</u>	<u>38,500</u>	<u>0</u>	<u>310,500</u>
Subtotal	<u>1,462,301</u>	<u>186,094</u>	<u>5,056</u>	<u>1,643,339</u>
Net Capital Assets Being Depreciated	<u>3,749,414</u>	<u>3,282</u>	<u>197,187</u>	<u>3,555,509</u>
Governmental Activities Total				
Capital Assets—Net of Depreciation	<u>\$ 4,667,381</u>	<u>\$ 240,330</u>	<u>\$ 247,747</u>	<u>\$ 4,659,964</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 7 - CAPITAL ASSETS (CONTINUED)

<u>Business-Type</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated :				
Infrastructure	\$ 150,000	\$ 0	\$ 0	\$ 150,000
Less Accumulated Depreciation for:				
Infrastructure	<u>36,000</u>	<u>6,000</u>	<u>0</u>	<u>42,000</u>
Business-Type Activities Total				
Capital Assets—Net of Depreciation	<u>\$ 114,000</u>	<u>\$ 6,000</u>	<u>\$ 0</u>	<u>\$ 108,000</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities

 General government:

 Other general government \$ 33,000

 Public safety:

 Police 14,024

 Public works:

 Other public works 84,070

 Community and economic development 50,000

 Recreation and culture 5,000

Total Governmental Activities \$ 186,094

Business-Type Activities

 Water \$ 6,000

NOTE 8 - LONG-TERM DEBT

At June 30, 2004, long-term debt consists of the following individual issues:

	<u>Governmental</u>	<u>Business-Type</u>
A. Bonds Payable:		
1994 West Branch Housing General Obligation Refunding Bonds in the amount of \$1,650,000 due in annual installments of \$95,000 to \$125,000 through 2009; interest at an average rate of 5.8%.	\$ 665,000	\$ 0
1996 Unlimited Tax General Obligation Bonds in the amount of \$820,000 due in annual installments of \$50,000 to \$95,000 through October 1, 2010; interest at 5.00% to 6.50%, used for street improvements .	540,000	0

CITY OF WEST BRANCH
Ogemaw County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 8 - LONG-TERM DEBT (CONTINUED)

	<u>Governmental</u>	<u>Business-Type</u>
A. Bonds Payable: (Continued)		
1997 Unlimited Tax General Obligation Bonds in the amount of \$350,000 due in annual installments of \$20,000 to \$40,000 through September 1, 2011; interest at 4.7% - 6.875%, used to construct a senior center .	\$ 245,000	\$ 0
Contractual obligation in the amount of \$1,115,000 to pay its portion of the 1982 Ogemaw County Sanitary Sewer System Serial Bonds (West Branch area) due in annual installments of \$35,000 through January 1, 2006; interest at 5%.	<u>70,000</u>	<u>0</u>
	<u>1,520,000</u>	<u>0</u>
B. Notes Payable:		
2000 – Little League Ball Field Lighting Contract in the amount of \$64,786 due in annual installments of \$5,000 to \$9,776 through August 31, 2010; interest at 5.19%.	39,776	0
2002 – Michigan Economic Development Corporation Note in the amount of \$250,000 due in annual installments of \$5,410 to \$21,112 through June 30, 2013; interest at 4.00%. This note was decreased by \$100,000 in 2004 due to incentive credits for hiring new employees. Five new employees were hired at a \$20,000 note reduction credit each.	<u>150,000</u>	<u>0</u>
	<u>189,776</u>	<u>0</u>
C. Contract Payable:		
1998 – Improvement Debt Municipal Purchase Contract in the amount of \$600,000 due in annual installments of \$45,750 to \$54,750 through May 1, 2008; interest at 4.75%.	<u>205,500</u>	<u>68,500</u>
Total	<u>\$ 1,915,276</u>	<u>\$ 68,500</u>

D. Compensated Absences

The City has an accrued liability for accumulated sick leave benefits of its employees. As of June 30, 2004, the accumulated vested sick leave benefits of the employees of various City departments were as follows:

	<u>Current Liability 6/30/04</u>	<u>Long-Term Liability 6/30/04</u>	<u>Total Balance 6/30/04</u>
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ 0	\$ 1,275	\$ 1,275
Business-Type Activities	<u>0</u>	<u>150</u>	<u>150</u>
Total	<u>\$ 0</u>	<u>\$ 1,425</u>	<u>\$ 1,425</u>

CITY OF WEST BRANCH
Ogemaw County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 8 - LONG-TERM DEBT (CONTINUED)E. Changes in Long-Term Liabilities

	Balance July 1, 2003	Issues or Additions	Payments or Expenditures	Balance June 30, 2004	Due Within One Year
<u>Governmental Activities</u>					
Notes payable	\$ 294,776	\$ 0	\$ 105,000	\$ 189,776	\$ 18,023
Bonds payable	1,730,000	0	210,000	1,520,000	240,000
Contract payable	251,250	0	45,750	205,500	48,000
Accrued employee benefits payable	1,065	210*	0	1,275	1,275
Total	<u>\$ 2,277,091</u>	<u>\$ 210</u>	<u>\$ 360,750</u>	<u>\$ 1,916,551</u>	<u>\$ 307,298</u>
<u>Business-Type Activities</u>					
Contract payable	\$ 83,750	\$ 0	\$ 15,250	\$ 68,500	\$ 16,000
Accrued employee benefits payable	285	0	135*	150	150
Total	<u>\$ 84,035</u>	<u>\$ 0</u>	<u>\$ 15,385</u>	<u>\$ 68,650</u>	<u>\$ 16,150</u>

*Represents net of additions and retirements for the year.

The annual aggregate maturities for all debt outstanding (excluding compensated absences) as of June 30, 2004 are as follows:

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Notes Payable</u>					
2005	\$ 18,023	\$ 5,434	\$ 0	\$ 0	\$ 23,457
2006	21,627	7,037	0	0	28,664
2007	22,302	6,103	0	0	28,405
2008	23,005	5,140	0	0	28,145
2009	23,736	4,149	0	0	27,885
2010 – 2014	81,083	6,008	0	0	87,091
	<u>\$ 189,776</u>	<u>\$ 33,871</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 223,647</u>
<u>Bonds Payable</u>					
2005	\$ 240,000	\$ 76,833	\$ 0	\$ 0	\$ 316,833
2006	245,000	64,072	0	0	309,072
2007	210,000	51,072	0	0	261,072
2008	220,000	39,425	0	0	259,425
2009	215,000	27,490	0	0	242,490
2010 – 2014	390,000	22,465	0	0	412,465
	<u>\$ 1,520,000</u>	<u>\$ 281,357</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,801,357</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 8 - LONG-TERM DEBT (CONTINUED)

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
<u>Contracts Payable</u>					
2005	\$ 48,000	\$ 9,761	\$ 16,000	\$ 3,254	\$ 77,015
2006	50,250	7,481	16,750	2,494	76,975
2007	52,500	5,094	17,500	1,698	76,792
2008	<u>54,750</u>	<u>2,600</u>	<u>18,250</u>	<u>867</u>	<u>76,467</u>
	<u>\$ 205,500</u>	<u>\$ 24,936</u>	<u>\$ 68,500</u>	<u>\$ 8,313</u>	<u>\$ 307,249</u>

NOTE 9 - OPERATING TRANSFERS

During the year ended June 30, 2004, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 0	\$ 70,432
Major Streets Fund	0	45,522
Local Streets Fund	21,275	0
Downtown Redevelopment Fund	80,000	0
Senior Citizens Housing Program	0	146,518
Civic Fund	0	76,867
Major Business-Type Activity Funds:		
Sewer Fund	0	140,775
Collection Replacement Fund	50,000	0
Plant Replacement Fund	50,000	0
Water Fund	19,217	75,000
Water Replacement Fund	<u>75,000</u>	<u>0</u>
Total Major Funds	295,492	555,114
Nonmajor Governmental Funds	<u>324,330</u>	<u>64,708</u>
	<u>\$ 619,822</u>	<u>\$ 619,822</u>

CITY OF WEST BRANCH
Ogemaw County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 9 - OPERATING TRANSFERS (CONTINUED)

During the year ended June 30, 2004, the following individual fund transfers were made:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
Local Streets Fund	\$ 21,275	Major Streets Fund	\$ 21,275
Downtown Redevelopment Fund	40,000	General Fund	40,000
Downtown Redevelopment Fund	40,000	DDA Fund	40,000
Cemetery Fund	8,500	General Fund	8,500
Cemetery Fund	11,642	Cemetery Perpetual Care	11,642
DDA Fund	234	Downtown Dev. Authority Debt Service	234
DDA Fund	12,832	DDA Perpetual Care	12,832
Senior Center Fund	10,000	General Fund	10,000
IBLAP Project	24,247	Major Streets Fund	24,247
IBLAP Project	11,932	General Fund	11,932
1998 Improvement Debt Service	57,650	Civic Fund	57,650
High Rise Debt Refunding	146,518	Senior Citizens Housing Program	146,518
Wastewater Treatment Debt Service	40,775	Sewer Fund	40,775
Collection Replacement Fund	50,000	Sewer Fund	50,000
Plant Replacement Fund	50,000	Sewer Fund	50,000
Water Fund	19,217	Civic Fund	19,217
Water Replacement Fund	<u>75,000</u>	Water Fund	<u>75,000</u>
Total	<u>\$ 619,822</u>		<u>\$ 619,822</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 10 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2004, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Financial and Tax Administration	\$ 159,037	\$ 188,624	\$ 29,587
General Fund/Public Safety	\$ 341,101	\$ 442,276	\$ 101,175
General Fund/Public Works	\$ 217,159	\$ 303,973	\$ 86,814

CITY OF WEST BRANCH
Ogemaw County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 10 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS (CONTINUED)

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Debt Service	\$ 0	\$ 7,326	\$ 7,326
General Fund/Operating Transfers Out	\$ 64,600	\$ 70,432	\$ 5,832
Special Revenue Funds/General Government	\$ 32,671	\$ 36,186	\$ 3,515
Special Revenue Funds/Public Safety	\$ 0	\$ 6,199	\$ 6,199
Special Revenue Funds/Operating Transfers Out	\$ 258,988	\$ 308,907	\$ 49,919

All of the budget variances above were the result of year-end audit adjustments.

NOTE 11 - RETIREMENT SYSTEM - MERS OPERATEDPlan Description

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate. The current rate is 11.79% of annual covered payroll for General Members, and 9.6% of annual covered payroll for police and fire employees. The contribution requirements of plan members are 5% for General Members. If a member leaves the employ of the City, or dies, without a retirement allowance or other benefit payable on his account, the member's accumulated contributions (with interest) are refunded to the member, if living, or to the members' surviving spouse or beneficiary. The contribution requirements are established and may be amended by the MERS Retirement Board.

Annual Pension Cost

For 2004, the City's annual pension cost of \$76,150 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, (c) additional projected salary increases of 0% to 4.16% per year, depending on age, attributable to merit, seniority/merit and (d) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll over a period of 30 years.

CITY OF WEST BRANCH
Ogemaw County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 11 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

The City has adopted GASB 27 *Accounting for Pensions by State and Local Governmental Employer*. The following pension information is presented in accordance with GASB 27:

Actuarial Accrued Liability from December 31, 2003Actuarial Valuation

Retirees and beneficiaries currently receiving benefits	\$ 956,071
Terminated employees not yet receiving benefits	178,135
Current employees -	
Accumulated employee contributions including allocated investment income	366,441
Employer financed	<u>1,242,066</u>
Total Actuarial Accrued Liability	2,742,713
Net assets available for benefits at actuarial value (Market value is \$1,909,441)	<u>(2,091,145)</u>
Unfunded Actuarial Accrued Liability	<u>\$ 651,568</u>

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$ 59,040	100%	\$ 0
June 30, 2003	\$ 67,971	100%	\$ 0
June 30, 2004	\$ 76,150	100%	\$ 0

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$ 1,936,109	\$ 2,465,288	\$ 529,179	79%	\$ 666,355	79%
12/31/02	\$ 1,995,646	\$ 2,612,555	\$ 616,909	76%	\$ 727,757	85%
12/31/03	\$ 2,091,145	\$ 2,742,713	\$ 651,568	76%	\$ 711,119	92%

Vesting

Both union and non-union employees become vested in the plan at the rate of 20% per year after one year of service with 100% vesting after five years of service.

CITY OF WEST BRANCH
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 13 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. No liabilities were due as of June 30, 2004.

NOTE 14 - PROPERTY TAX ADMINISTRATION FEES

P.A. 503 of 1982, provides that a local unit can only use property tax administration fees collected to offset costs of assessing, including review and appeals and tax collections.

During the year ended June 30, 2004, the City fully expended the \$25,906 collected.

NOTE 15 - DEFICIT FUND BALANCE

The Downtown Redevelopment Fund had a deficit fund balance of \$117,780 at June 30, 2004.

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS

In addition to pension benefits described in Note 10, the City provides post-employment benefit options for health care and prescription coverage to eligible retirees. The benefits are provided in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility is age 55 and 10 years or more of service. The City funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay all of the premiums for the cost of the benefits. During the year ended June 30, 2004, expenses and participant contributions of \$33,490 were recognized for post-employment health insurance and \$1,008 for post-employment prescription coverage. There are five participants currently eligible.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 GENERAL FUND
For the Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Taxes	\$ 711,420	\$ 712,511	\$ 782,516	\$ 70,005
Federal grants	25,000	25,000	34,556	9,556
State grants and revenue	232,428	218,440	248,798	30,358
Charges for services	141,845	125,618	119,176	(6,442)
Fines and forfeits	15,850	15,850	24,923	9,073
Interest and rentals	9,000	9,000	6,292	(2,708)
Other revenue	45,124	44,500	68,018	23,518
Total revenue	<u>1,180,667</u>	<u>1,150,919</u>	<u>1,284,279</u>	<u>133,360</u>
<u>Expenditures</u>				
Current:				
Legislative and executive	92,235	91,756	86,063	5,693
Financial and tax administration	160,500	159,037	188,624	(29,587)
General government	342,751	343,387	156,272	187,115
Public safety	342,834	341,101	442,276	(101,175)
Public works	219,084	217,159	303,973	(86,814)
Community and economic development	31,208	31,436	30,783	653
Recreation and cultural	38,336	73,286	55,312	17,974
Debt service:				
Principal	0	0	5,000	(5,000)
Interest and fiscal charges	0	0	2,326	(2,326)
Total expenditures	<u>1,226,948</u>	<u>1,257,162</u>	<u>1,270,629</u>	<u>(13,467)</u>
Excess of revenue over (under) expenditures	(46,281)	(106,243)	13,650	119,893
Other Financing Uses:				
Operating transfers out	<u>(24,600)</u>	<u>(64,600)</u>	<u>(70,432)</u>	<u>(5,832)</u>
Excess of revenue over (under) expenditures and other uses	(70,881)	(170,843)	(56,782)	114,061
Fund balances - beginning of year	<u>261,466</u>	<u>261,466</u>	<u>261,466</u>	<u>0</u>
Fund balances - end of year	<u>\$ 190,585</u>	<u>\$ 90,623</u>	<u>\$ 204,684</u>	<u>\$ 114,061</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL -
 MAJOR STREETS - SPECIAL REVENUE FUND
For the Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
State shared revenue	\$ 90,000	\$ 90,000	\$ 121,222	\$ 31,222
Trunkline maintenance - reimbursement	14,500	14,500	18,327	3,827
Interest income	4,500	4,500	1,796	(2,704)
Miscellaneous	200	200	1,361	1,161
Total revenue	<u>109,200</u>	<u>109,200</u>	<u>142,706</u>	<u>33,506</u>
<u>Expenditures</u>				
Construction -				
Salaries and wages	500	500	0	500
Contractual services	20,000	20,000	10,359	9,641
Equipment rental	250	250	0	250
Routine maintenance -				
Salaries and wages	3,100	3,100	3,496	(396)
Operating supplies	500	500	291	209
Contractual services	2,500	2,500	842	1,658
Equipment rental	4,500	4,500	4,421	79
Traffic services -				
Salaries and wages	500	500	268	232
Operating supplies	200	200	0	200
Equipment rental	400	400	120	280
Winter maintenance -				
Salaries and wages	4,500	4,500	5,376	(876)
Operating supplies	8,500	8,500	9,874	(1,374)
Equipment rental	7,500	7,500	9,412	(1,912)
Administration -				
Administration	5,076	5,076	5,648	(572)
Fringe benefits	3,571	3,571	1,374	2,197
Trunkline -				
Administration	5,158	5,158	2,169	2,989
Snow removal	3,400	3,400	2,900	500
Traffic signal	2,650	2,650	1,800	850
Surface maintenance	611	611	390	221
Sweeping and flushing	3,081	3,081	2,564	517
Trees and shrubs	381	381	158	223
Drainage and backslopes	1,184	1,184	267	917
Pavement and markings	375	375	0	375
Winter maintenance	7,300	7,300	6,148	1,152
Traffic signs	69	69	0	69
Total expenditures	<u>85,806</u>	<u>85,806</u>	<u>67,877</u>	<u>17,929</u>
Excess of revenue over expenditures	<u>23,394</u>	<u>23,394</u>	<u>74,829</u>	<u>51,435</u>
Other Financing Sources (Uses):				
Operating transfers in (out) -				
Local Streets Fund	(22,500)	(22,500)	(21,275)	1,225
IBLAP	0	(12,057)	(24,247)	(12,190)
Total other financing sources (uses)	<u>(22,500)</u>	<u>(34,557)</u>	<u>(45,522)</u>	<u>(10,965)</u>
Excess of revenue and other sources over (under) expenditures and other uses	894	(11,163)	29,307	40,470
Fund balances - beginning of year	<u>254,226</u>	<u>254,226</u>	<u>254,226</u>	<u>0</u>
Fund balances - end of year	<u>\$ 255,120</u>	<u>\$ 243,063</u>	<u>\$ 283,533</u>	<u>\$ 40,470</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL -
 LOCAL STREETS - SPECIAL REVENUE FUND
For the Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
State shared revenue	\$ 35,000	\$ 35,000	\$ 41,994	\$ 6,994
Interest income	1,800	1,800	850	(950)
Miscellaneous	100	100	208	108
Total revenue	<u>36,900</u>	<u>36,900</u>	<u>43,052</u>	<u>6,152</u>
<u>Expenditures</u>				
Construction -				
Salaries and wages	2,500	2,500	78	2,422
Contractual services	35,000	35,000	6,582	28,418
Equipment rental	1,500	1,500	132	1,368
Routine maintenance -				
Salaries and wages	5,797	5,797	5,851	(54)
Operating supplies	1,500	1,500	1,450	50
Contractual services	200	200	2,505	(2,305)
Equipment rental	8,500	8,500	9,079	(579)
Miscellaneous expenses	200	200	36	164
Traffic services -				
Salaries, wages and fringe benefits	200	200	484	(284)
Operating supplies	50	50	0	50
Equipment rental	100	100	0	100
Winter maintenance -				
Salaries and wages	3,500	3,500	3,824	(324)
Operating supplies	1,200	1,200	1,279	(79)
Equipment rental	6,500	6,500	7,357	(857)
Expenses	100	100	0	100
Administration -				
Administration	2,930	2,930	3,186	(256)
Fringe benefits	1,759	1,759	1,534	225
Total expenditures	<u>71,536</u>	<u>71,536</u>	<u>43,377</u>	<u>28,159</u>
Excess of revenue over (under) expenditures	(34,636)	(34,636)	(325)	34,311
Other Financing Sources:				
Operating transfers in -				
Major Streets Fund	<u>22,500</u>	<u>22,500</u>	<u>21,275</u>	<u>(1,225)</u>
Excess of revenue and other sources over (under) expenditures	(12,136)	(12,136)	20,950	33,086
Fund balances - beginning of year	<u>125,688</u>	<u>125,688</u>	<u>125,688</u>	<u>0</u>
Fund balances - end of year	<u>\$ 113,552</u>	<u>\$ 113,552</u>	<u>\$ 146,638</u>	<u>\$ 33,086</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL -
 DOWNTOWN REDEVELOPMENT - SPECIAL REVENUE FUND
For the Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal grants and revenue	<u>\$ 0</u>	<u>\$ 260,350</u>	<u>\$ 45,000</u>	<u>\$ (215,350)</u>
<u>Expenditures</u>				
Legislative	0	0	0	0
Community and economic development	0	0	5,732	(5,732)
Capital outlay	<u>340,350</u>	<u>340,350</u>	<u>237,048</u>	<u>103,302</u>
Total expenditures	<u>340,350</u>	<u>340,350</u>	<u>242,780</u>	<u>97,570</u>
Excess of revenue over (under) expenditures	(340,350)	(80,000)	(197,780)	(117,780)
Other Financing Sources:				
Operating transfers in	<u>0</u>	<u>80,000</u>	<u>80,000</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures	(340,350)	0	(117,780)	(117,780)
Fund balances - beginning of year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balances (deficit) - end of year	<u>\$ (340,350)</u>	<u>\$ 0</u>	<u>\$ (117,780)</u>	<u>\$ (117,780)</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL -
 SENIOR CITIZENS HOUSING PROGRAM - SPECIAL REVENUE FUND
For the Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal grants and revenue	\$ 225,000	\$ 225,000	\$ 222,405	\$ (2,595)
Interest and rentals	121,450	121,450	122,823	1,373
Other revenue	31,500	31,500	5,434	(26,066)
Total revenue	377,950	377,950	350,662	(27,288)
<u>Expenditures</u>				
Legislative	0	0	0	0
Community and economic development	230,610	193,752	197,697	(3,945)
Excess of revenue over (under) expenditures	147,339	184,198	152,965	(31,233)
Other Financing Uses:				
Operating transfers out	(180,518)	(146,018)	(146,518)	(500)
Excess of revenue over (under) expenditures and other uses	(33,179)	38,180	6,447	(31,733)
Fund balances - beginning of year	36,101	36,101	36,101	0
Fund balances - end of year	\$ 2,922	\$ 74,281	\$ 42,548	\$ (31,733)

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL -
 HOUSING FUND - SPECIAL REVENUE FUND
For the Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Federal grants and revenue	\$ 329,250	\$ 329,250	\$ 233,826	\$ (95,424)
State grants and revenue	10,000	10,000	0	(10,000)
Interest and rentals	0	0	806	806
Other revenue	<u>58,750</u>	<u>58,750</u>	<u>14,049</u>	<u>(44,701)</u>
Total revenue	398,000	398,000	248,681	(149,319)
<u>Expenditures</u>				
Legislative	0	0	0	0
Community and economic development	<u>398,000</u>	<u>387,234</u>	<u>248,681</u>	<u>138,553</u>
Excess of revenue over (under) expenditures	0	10,766	0	(10,766)
Fund balances - beginning of year	<u>71</u>	<u>71</u>	<u>71</u>	<u>0</u>
Fund balances - end of year	<u>\$ 71</u>	<u>\$ 10,837</u>	<u>\$ 71</u>	<u>\$ (10,766)</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL -
 CIVIC FUND - SPECIAL REVENUE FUND
For the Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Interest and rentals	\$ 40,000	\$ 40,000	\$ 28,608	\$ (11,392)
Other revenue	<u>17,250</u>	<u>0</u>	<u>17,181</u>	<u>17,181</u>
Total revenue	57,250	40,000	45,789	5,789
 <u>Expenditures</u>	 <u>0</u>	 <u>0</u>	 <u>0</u>	 <u>0</u>
Excess of revenue over expenditures	57,250	40,000	45,789	5,789
Other Financing Uses:				
Operating transfers out	<u>(76,913)</u>	<u>(76,913)</u>	<u>(76,867)</u>	<u>46</u>
Excess of revenue over (under) expenditures and other uses	(19,663)	(36,913)	(31,078)	5,835
Fund balances - beginning of year	<u>691,252</u>	<u>691,252</u>	<u>691,252</u>	<u>0</u>
Fund balances - end of year	<u>\$ 671,589</u>	<u>\$ 654,339</u>	<u>\$ 660,174</u>	<u>\$ 5,835</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL -
 ALL SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Taxes	\$ 7,402	\$ 7,402	\$ 8,842	\$ 1,440
Federal grants and revenue	565,350	814,600	501,231	(313,369)
State grants and revenue	478,750	149,500	185,913	36,413
Contributions from local units	0	0	4,201	4,201
Charges for services	39,500	39,500	88,646	49,146
Interest and rentals	176,550	176,550	162,822	(13,728)
Other revenue	118,200	100,950	48,220	(52,730)
Total revenue	<u>1,385,752</u>	<u>1,288,502</u>	<u>999,875</u>	<u>(288,627)</u>
<u>Expenditures</u>				
Current:				
General government	32,671	32,671	36,186	(3,515)
Public safety	0	0	6,199	(6,199)
Public works	157,342	157,342	111,254	46,088
Health and welfare	23,302	23,302	18,809	4,493
Community and economic development	1,045,903	660,928	503,070	157,858
Total expenditures	<u>1,939,918</u>	<u>1,554,943</u>	<u>1,149,614</u>	<u>405,329</u>
Excess of revenue over (under) expenditures	<u>(554,166)</u>	<u>(266,441)</u>	<u>(149,739)</u>	<u>116,702</u>
Other Financing Sources (Uses):				
Operating transfers in	81,500	173,557	180,662	7,105
Operating transfers out	<u>(281,431)</u>	<u>(258,988)</u>	<u>(308,907)</u>	<u>(49,919)</u>
Total other financing sources (uses)	<u>(199,931)</u>	<u>(85,431)</u>	<u>(128,245)</u>	<u>(42,814)</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(754,097)</u>	<u>(351,872)</u>	<u>(277,984)</u>	<u>73,888</u>
Fund balances - beginning of year	<u>1,368,844</u>	<u>1,368,844</u>	<u>1,368,844</u>	<u>0</u>
Fund balances - end of year	<u>\$ 614,747</u>	<u>\$ 1,016,972</u>	<u>\$ 1,090,860</u>	<u>\$ 73,888</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
June 30, 2004

	Cemetery Fund	DDA Fund	Industrial Park Fund	Housing Replacement Fund	Senior Center Fund	Progress Building Fund	Police Safety Program	IBLAP Project	1998 Improvement Debt Service	Street Improvement Debt Service	Senior Center Debt Service	High Rise Debt Refunding	Wastewater Treatment Debt Service	Downtown Development Authority Debt Service	Cemetery Perpetual Care	DDA Perpetual Care	Total Other Governmental Funds
ASSETS																	
Cash and cash equivalents	\$ 619	\$ 8,850	\$ 209,184	\$ 26,871	\$ 9,000	\$ 22,281	\$ 2,389	\$ 36,359	\$ 102	\$ 11,419	\$ 65,684	\$ 70	\$ 14	\$ 0	\$ 23,260	\$ 48,311	\$ 464,413
Investments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	221,000	230,182	451,182
Receivables:																	
Accounts receivable	632	0	0	0	0	0	0	0	0	0	0	0	0	0	275	0	907
Total Assets	<u>\$ 1,251</u>	<u>\$ 8,850</u>	<u>\$ 209,184</u>	<u>\$ 26,871</u>	<u>\$ 9,000</u>	<u>\$ 22,281</u>	<u>\$ 2,389</u>	<u>\$ 36,359</u>	<u>\$ 102</u>	<u>\$ 11,419</u>	<u>\$ 65,684</u>	<u>\$ 70</u>	<u>\$ 14</u>	<u>\$ 0</u>	<u>\$ 244,535</u>	<u>\$ 278,493</u>	<u>\$ 916,502</u>
LIABILITIES AND FUND EQUITY																	
<u>Liabilities</u>																	
Accounts payable	\$ 15	\$ 2,510	\$ 0	\$ 0	\$ 772	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,297
Due to other funds	0	0	0	0	164	0	0	0	0	3,808	0	0	0	0	0	0	3,972
Total liabilities	<u>15</u>	<u>2,510</u>	<u>0</u>	<u>0</u>	<u>936</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,808</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,269</u>
<u>Fund Equity</u>																	
Fund balances:																	
Reserved:																	
For debt service	0	0	0	0	0	0	0	0	102	7,611	65,684	70	14	0	0	0	73,481
For replacement	0	0	0	26,871	0	0	0	0	0	0	0	0	0	0	0	0	26,871
For perpetual care	0	0	0	0	0	0	0	0	0	0	0	0	0	0	244,535	278,493	523,028
Unreserved reported in:																	
Special revenue funds	1,236	6,340	209,184	0	8,064	22,281	2,389	36,359	0	0	0	0	0	0	0	0	285,853
Total fund equity	<u>1,236</u>	<u>6,340</u>	<u>209,184</u>	<u>26,871</u>	<u>8,064</u>	<u>22,281</u>	<u>2,389</u>	<u>36,359</u>	<u>102</u>	<u>7,611</u>	<u>65,684</u>	<u>70</u>	<u>14</u>	<u>0</u>	<u>244,535</u>	<u>278,493</u>	<u>909,233</u>
Total Liabilities and Fund Equity	<u>\$ 1,251</u>	<u>\$ 8,850</u>	<u>\$ 209,184</u>	<u>\$ 26,871</u>	<u>\$ 9,000</u>	<u>\$ 22,281</u>	<u>\$ 2,389</u>	<u>\$ 36,359</u>	<u>\$ 102</u>	<u>\$ 11,419</u>	<u>\$ 65,684</u>	<u>\$ 70</u>	<u>\$ 14</u>	<u>\$ 0</u>	<u>\$ 244,535</u>	<u>\$ 278,493</u>	<u>\$ 916,502</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	Cemetery Fund	DDA Fund	Industrial Park Fund	Housing Replacement Fund	Senior Center Fund	Progress Building Fund	Police Safety Program	IBLAP Project
<u>Revenue</u>								
Taxes	\$ 0	\$ 8,842	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
State grants and revenue	0	0	0	0	0	0	4,370	0
Contributions from local units	0	0	0	0	0	0	4,201	0
Charges for services	8,628	0	80,018	0	0	0	0	0
Interest and rentals	15	183	2,278	403	4,587	276	17	180
Other revenue	0	87	0	0	8,401	1,499	0	0
Total revenue	8,643	9,112	82,296	403	12,988	1,775	8,588	180
<u>Expenditures</u>								
Current:								
General government	36,186	0	0	0	0	0	0	0
Public safety	0	0	0	0	0	0	6,199	0
Health and welfare	0	0	0	0	18,809	0	0	0
Community and economic development	0	25,043	17,517	8,400	0	0	0	0
Other	0	0	0	0	0	0	0	0
Debt service:								
Principal	0	0	0	0	0	0	0	0
Interest and fiscal charges	0	0	0	0	0	0	0	0
Total expenditures	36,186	25,043	17,517	8,400	18,809	0	6,199	0
Excess of revenue over (under) expenditures	(27,543)	(15,931)	64,779	(7,997)	(5,821)	1,775	2,389	180
Other Financing Sources (Uses):								
Operating transfers in	20,142	13,066	0	0	10,000	0	0	36,179
Operating transfers out	0	(40,000)	0	0	0	0	0	0
Total other financing sources (uses)	20,142	(26,934)	0	0	10,000	0	0	36,179
Excess of revenue and other sources over (under) expenditures and other uses	(7,401)	(42,865)	64,779	(7,997)	4,179	1,775	2,389	36,359
Fund balances - beginning of year	8,637	49,205	144,405	34,868	3,885	20,506	0	0
Fund balances - end of year	\$ 1,236	\$ 6,340	\$ 209,184	\$ 26,871	\$ 8,064	\$ 22,281	\$ 2,389	\$ 36,359

CITY OF WEST BRANCH
Ogemaw County, MichiganCOMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	1998 Improvement Debt Service	Street Improvement Debt Service	Senior Center Debt Service	High Rise Debt Refunding	Wastewater Treatment Debt Service	Downtown Development Authority Debt Service	Cemetery Perpetual Care	DDA Perpetual Care	Total Other Governmental Funds
<u>Revenue</u>									
Taxes	\$ 0	\$ 86,807	\$ 20,252	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 115,901
State grants and revenue	0	0	0	0	0	0	0	0	4,370
Contributions from local units	0	0	16,256	0	0	0	0	0	20,457
Charges for services	0	0	0	0	0	0	1,514	0	90,160
Interest and rentals	1	174	281	25	14	1	7,761	11,794	27,990
Other revenue	0	0	0	0	0	0	0	0	9,987
Total revenue	<u>1</u>	<u>86,981</u>	<u>36,789</u>	<u>25</u>	<u>14</u>	<u>1</u>	<u>9,275</u>	<u>11,794</u>	<u>268,865</u>
<u>Expenditures</u>									
Current:									
General government	0	0	0	0	0	0	0	0	36,186
Public safety	0	0	0	0	0	0	0	0	6,199
Health and welfare	0	0	0	0	0	0	0	0	18,809
Community and economic development	0	0	0	0	0	0	0	0	50,960
Other	0	0	0	0	0	0	0	92,537	92,537
Capital outlay	0	0	0	0	0	0	0	0	0
Debt service:									
Principal	45,750	50,000	20,000	105,000	35,000	0	0	0	255,750
Interest and fiscal charges	11,900	29,550	13,585	41,518	5,775	0	0	0	102,328
Total expenditures	<u>57,650</u>	<u>79,550</u>	<u>33,585</u>	<u>146,518</u>	<u>40,775</u>	<u>0</u>	<u>0</u>	<u>92,537</u>	<u>562,769</u>
Excess of revenue over (under) expenditures	<u>(57,649)</u>	<u>7,431</u>	<u>3,204</u>	<u>(146,493)</u>	<u>(40,761)</u>	<u>1</u>	<u>9,275</u>	<u>(80,743)</u>	<u>(293,904)</u>
Other Financing Sources (Uses):									
Operating transfers in	57,650	0	0	146,518	40,775	0	0	0	324,330
Operating transfers out	0	0	0	0	0	(234)	(11,642)	(12,832)	(64,708)
Total other financing sources (uses)	<u>57,650</u>	<u>0</u>	<u>0</u>	<u>146,518</u>	<u>40,775</u>	<u>(234)</u>	<u>(11,642)</u>	<u>(12,832)</u>	<u>259,622</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>1</u>	<u>7,431</u>	<u>3,204</u>	<u>25</u>	<u>14</u>	<u>(233)</u>	<u>(2,367)</u>	<u>(93,575)</u>	<u>(34,282)</u>
Fund balances - beginning of year	<u>101</u>	<u>180</u>	<u>62,480</u>	<u>45</u>	<u>0</u>	<u>233</u>	<u>246,902</u>	<u>372,068</u>	<u>943,515</u>
Fund balances - end of year	<u>\$ 102</u>	<u>\$ 7,611</u>	<u>\$ 65,684</u>	<u>\$ 70</u>	<u>\$ 14</u>	<u>\$ 0</u>	<u>\$ 244,535</u>	<u>\$ 278,493</u>	<u>\$ 909,233</u>

OTHER INFORMATION

CITY OF WEST BRANCH
Ogemaw County, Michigan

GENERAL FUND
STATEMENT OF REVENUE - BUDGET AND ACTUAL
For the Year Ended June 30, 2004
With Comparative Actual Amounts for the Year Ended June 30, 2003

	2004 Budget	2004 Actual	2003 Actual
<u>Taxes</u>			
Current property taxes	\$ 705,920	\$ 767,027	\$ 691,444
Penalties and interest	6,591	15,489	6,987
	<u>712,511</u>	<u>782,516</u>	<u>698,431</u>
<u>Federal grants</u>			
COPS Grant	25,000	28,922	38,520
Police Vest Grant	0	636	0
Police Safety Grant	0	4,998	0
	<u>25,000</u>	<u>34,556</u>	<u>38,520</u>
<u>State grants and revenue</u>			
Sales tax	192,731	197,556	206,328
Liquor licenses	2,779	2,741	2,806
In-Service Training Grant	1,300	1,327	1,327
Anti-Drug Grant	21,630	20,505	22,563
DNR Grant	0	0	30,000
MDOT Master Plan Grant	0	26,669	0
	<u>218,440</u>	<u>248,798</u>	<u>263,024</u>
<u>Charges for Services</u>			
Planning and zoning	450	2,830	1,415
Administrative fees	113,668	106,427	103,466
Fire runs	2,000	789	2,125
Driver's tests	9,500	9,130	11,445
	<u>125,618</u>	<u>119,176</u>	<u>118,451</u>
<u>Fines and Forfeits</u>			
Traffic bureau	2,500	11,309	3,065
Accident reports	350	449	513
District court fines	10,000	12,183	11,811
NSF Fees	3,000	982	1,895
	<u>15,850</u>	<u>24,923</u>	<u>17,284</u>
<u>Interest and rentals</u>			
Interest income	9,000	6,292	8,104
<u>Other Revenue</u>			
Miscellaneous	18,500	37,072	44,631
Retiree health insurance	26,000	30,946	32,667
	<u>44,500</u>	<u>68,018</u>	<u>77,298</u>
Total Revenue	1,150,919	<u>\$ 1,284,279</u>	<u>\$ 1,221,112</u>
Appropriation of Prior Year's Fund Balance	<u>170,843</u>		
	<u>\$ 1,321,762</u>		

CITY OF WEST BRANCH
Ogemaw County, Michigan

GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2004
With Comparative Actual Amounts for the Year Ended June 30, 2003

	<u>2004 Budget</u>	<u>2004 Actual</u>	<u>2003 Actual</u>
<u>Legislative and Executive</u>			
Legislative:			
Salaries and wages	\$ 9,600	\$ 9,600	\$ 8,750
Employee benefits	736	734	670
Membership and dues	1,700	1,608	1,608
Miscellaneous expenses	1,981	2,011	588
Operating supplies	36	0	0
Professional development	995	1,125	1,102
Worker's compensation	57	75	68
	<u>15,105</u>	<u>15,153</u>	<u>12,786</u>
City Manager's Office:			
Salaries and wages	62,114	50,816	63,845
Employee benefits	4,820	11,389	4,666
Equipment rental	4,635	5,888	4,635
Membership and dues	600	0	633
Miscellaneous expenses	1,808	1,103	1,433
Operating supplies	332	366	182
Professional development	2,000	1,040	1,077
Workers' compensation	242	308	203
Capital outlay	100	0	0
	<u>76,651</u>	<u>70,910</u>	<u>76,674</u>
Total Legislative and Executive	<u>91,756</u>	<u>86,063</u>	<u>89,460</u>
<u>Financial and Tax Administration</u>			
Internal Services:			
Salaries and wages	50,265	66,661	49,055
Employee benefits	3,870	13,556	3,579
Contractual Services	49	149	463
Data processing	10,259	6,838	5,896
Membership and dues	200	155	198
Miscellaneous expenses	679	1,076	3,013
Operating supplies	6,500	5,607	5,943
Postage	7,200	4,912	6,527
Printing and publishing	2,000	2,347	2,009
Professional development	400	181	466
Workers' compensation	235	290	166
Capital outlay	100	0	0
	<u>81,757</u>	<u>101,772</u>	<u>77,315</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2004
With Comparative Actual Amounts for the Year Ended June 30, 2003

	<u>2004 Budget</u>	<u>2004 Actual</u>	<u>2003 Actual</u>
<u>Financial and Tax Administration (Continued):</u>			
Clerk/Treasurer's Office:			
Salaries and wages	\$ 41,200	\$ 42,985	\$ 41,315
Employee benefits	3,173	12,090	3,023
Audit	9,000	9,000	9,844
Membership and dues	155	155	150
Miscellaneous expenses	198	99	496
Operating supplies	300	256	511
Professional development	600	25	358
Workers' compensation	154	201	122
Capital outlay	500	0	0
	<u>55,280</u>	<u>64,811</u>	<u>55,819</u>
Assessor:			
Property assessment - review service	<u>22,000</u>	<u>22,041</u>	<u>10,953</u>
Total Financial and Tax Administration	<u>159,037</u>	<u>188,624</u>	<u>144,087</u>
<u>General Government</u>			
Elections:			
Wages - part-time	2,000	1,498	1,726
Employee benefits	154	10	6
Operating supplies	2,400	1,463	665
Workers' compensation	<u>10</u>	<u>14</u>	<u>12</u>
	<u>4,564</u>	<u>2,985</u>	<u>2,409</u>
Legal Assistance:			
Contractual services	<u>20,000</u>	<u>15,600</u>	<u>19,451</u>
Municipal Buildings:			
Salaries and wages	5,200	6,110	7,970
Employee benefits	400	453	599
Contractual services	6,791	2,531	23,163
Equipment rental	2,500	1,855	5,770
Miscellaneous expenses	1,174	4,269	1,078
Operating supplies	500	373	925
Public utilities	17,500	17,651	19,349
Telephone/radio communications	3,885	4,655	2,430
Workers' compensation	208	179	262
Capital outlay	<u>2,614</u>	<u>0</u>	<u>0</u>
	<u>40,772</u>	<u>38,076</u>	<u>61,546</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2004
With Comparative Actual Amounts for the Year Ended June 30, 2003

	<u>2004 Budget</u>	<u>2004 Actual</u>	<u>2003 Actual</u>
<u>General Government (Continued):</u>			
City Services:			
Hydrant rental	\$ 6,600	\$ 6,600	\$ 6,600
Land purchases - license	25	25	25
Property tax adjustment	3,000	1,051	7,803
Public utilities	<u>29,000</u>	<u>28,625</u>	<u>31,360</u>
	<u>38,625</u>	<u>36,301</u>	<u>45,788</u>
Insurance and Risk Management:			
All risk premium	17,834	20,051	17,237
Supplies	<u>866</u>	<u>783</u>	<u>595</u>
	<u>18,700</u>	<u>20,834</u>	<u>17,832</u>
Employee Benefit Administration:			
Mandatory medicare	301	0	169
Social security	1,242	0	709
Employer deferred compensation	13,000	0	10,403
Employee health option	1,500	0	1,500
Employer funded retirement subsidy	1,495	0	1,715
Health insurance premium - retirees	135,000	33,490	136,764
Life insurance premium	1,100	0	1,279
Long-term disability	3,809	0	3,852
Merit incentive	5,000	0	0
Prescription co-pay - retirees	2,878	1,008	1,867
Retirement - MERS	44,000	0	46,303
Sick leave payout	540	0	510
Unemployment insurance benefits	2,000	0	2,883
Workers' compensation	<u>882</u>	<u>0</u>	<u>19</u>
	<u>212,747</u>	<u>34,498</u>	<u>207,973</u>
Other:			
West Branch Township - 3 mills	<u>7,979</u>	<u>7,978</u>	<u>8,196</u>
Total General Government	<u>343,387</u>	<u>156,272</u>	<u>363,195</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2004
With Comparative Actual Amounts for the Year Ended June 30, 2003

	<u>2004 Budget</u>	<u>2004 Actual</u>	<u>2003 Actual</u>
<u>Public Safety</u>			
Police Department:			
Salaries and wages	\$ 247,272	\$ 256,225	\$ 248,293
Employee benefits	17,682	109,248	18,137
Contractual services	0	3,953	0
Data processing	126	72	1,511
Education and training - local	3,000	3,038	1,720
Equipment rental	19,669	19,239	19,096
Membership and dues	260	217	179
Miscellaneous expenses	1,299	737	1,653
Operating supplies	3,940	8,292	3,202
Printing and publishing	150	47	23
Telephone	3,500	3,127	2,485
Uniforms	3,208	3,548	29
Workers' compensation	8,006	5,237	3,452
Capital outlay	2,000	0	2,567
	<u>310,112</u>	<u>412,980</u>	<u>302,347</u>
Fire Department:			
Salaries and wages	120	120	80
Employee benefits	10	9	0
Allocations	19,986	19,986	18,986
Miscellaneous expenses	2,500	1,608	1,513
	<u>22,616</u>	<u>21,723</u>	<u>20,579</u>
Crossing Guards:			
Wages - part-time	7,500	6,878	7,292
Employee benefits	578	528	543
Miscellaneous expenses	50	0	32
Workers' compensation	245	167	119
	<u>8,373</u>	<u>7,573</u>	<u>7,986</u>
Total Public Safety	<u>341,101</u>	<u>442,276</u>	<u>330,912</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2004
With Comparative Actual Amounts for the Year Ended June 30, 2003

	<u>2004 Budget</u>	<u>2004 Actual</u>	<u>2003 Actual</u>
<u>Public Works</u>			
Department of Public Works:			
Salaries and wages	\$ 32,598	\$ 41,608	\$ 37,260
Employee benefits	2,712	75,169	2,731
Contractual services	100	80	0
Data processing and programming	0	0	1,792
Equipment rental	9,565	13,162	9,836
Miscellaneous expenses	632	948	1,042
Operating supplies	4,406	5,258	4,110
Signs	140	110	3,609
Telephone - radio	1,745	2,039	1,031
Uniforms	1,783	2,443	135
Workers' compensation	1,550	1,562	1,117
	<u>55,231</u>	<u>142,379</u>	<u>62,663</u>
 Sidewalks:			
Salaries and wages	5,700	4,697	5,395
Employee benefits	439	360	404
Contractual services	18,067	9,657	19,823
Equipment rental	8,200	7,355	7,551
Operating supplies	500	411	617
Workers' compensation	251	29	19
	<u>33,157</u>	<u>22,509</u>	<u>33,809</u>
 Solid Waste:			
Salaries and wages	12,875	15,735	14,633
Employee benefits	991	1,191	1,084
Contractual services	66,000	67,691	68,948
Equipment rental	25,000	29,722	30,770
Public utilities	156	134	133
Workers' compensation	1,187	1,063	995
	<u>106,209</u>	<u>115,536</u>	<u>116,563</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2004
With Comparative Actual Amounts for the Year Ended June 30, 2003

	<u>2004 Budget</u>	<u>2004 Actual</u>	<u>2003 Actual</u>
<u>Public Works (Continued):</u>			
Airport:			
Salaries and wages	\$ 700	\$ 943	\$ 670
Employee benefits	54	72	96
Allocations	21,000	19,883	19,353
Miscellaneous expenses	800	2,651	804
Worker's compensation	8	0	0
	<u>22,562</u>	<u>23,549</u>	<u>20,923</u>
Total Public Works	<u>217,159</u>	<u>303,973</u>	<u>233,958</u>
<u>Community and Economic Development</u>			
Community Promotion:			
Salaries and wages	5,528	5,166	7,594
Employee benefits	398	397	362
Chamber of Commerce membership	350	350	0
Christmas decorations	421	232	0
Equipment rental	2,042	2,141	2,734
Miscellaneous expenses	13,295	12,299	14,273
Printing and publishing	739	1,500	1,405
Recognition dinner	2,128	2,128	0
Workers' compensation	154	53	32
	<u>25,055</u>	<u>24,266</u>	<u>26,400</u>
Planning and Zoning:			
Salaries and wages	2,420	2,420	2,400
Employee benefits	185	165	184
Contractual services	3,000	2,950	2,724
Operating supplies	100	169	158
Printing and publishing	468	628	462
Professional development	199	175	0
Workers' compensation	9	10	6
	<u>6,381</u>	<u>6,517</u>	<u>5,934</u>
Total Community and Economic Development	<u>31,436</u>	<u>30,783</u>	<u>32,334</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2004
With Comparative Actual Amounts for the Year Ended June 30, 2003

	<u>2004 Budget</u>	<u>2004 Actual</u>	<u>2003 Actual</u>
<u>Recreation and Cultural</u>			
Parks and Recreation:			
Salaries and wages	\$ 14,206	\$ 10,123	\$ 11,340
Employee benefits	1,098	757	829
Contractual services	39,755	27,809	1,630
Equipment rental	14,000	12,167	15,241
Equipment maintenance	408	0	0
Operating supplies	937	1,274	1,563
Public utilities	2,500	2,921	2,065
Workers' compensation	382	261	201
Total Recreation and Cultural	<u>73,286</u>	<u>55,312</u>	<u>32,869</u>
<u>Debt service</u>			
Principal	0	5,000	0
Interest and fiscal charges	<u>0</u>	<u>2,326</u>	<u>531</u>
Total Debt Service	<u>0</u>	<u>7,326</u>	<u>531</u>
Total Expenditures	<u>1,257,162</u>	<u>1,270,629</u>	<u>1,227,346</u>
Other Financing Uses:			
Operating transfers out:			
Downtown Redevelopment Fund	40,000	40,000	0
Housing Fund	0	0	1,570
IBLAP Fund	12,100	11,932	12,190
Cemetery Fund	2,500	8,500	8,895
Senior Center	10,000	10,000	6,000
	<u>64,600</u>	<u>70,432</u>	<u>28,655</u>
Total Expenditures and Other Uses	<u>\$ 1,321,762</u>	<u>\$ 1,341,061</u>	<u>\$ 1,256,001</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

SCHEDULE OF INDEBTEDNESS
June 30, 2004

UNLIMITED TAX GENERAL OBLIGATION BONDS

Senior Center Improvements

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal</u>	<u>Annual Interest Payable</u>	<u>Total</u>
1-1-97	\$ 350,000	4.7% - 6.875%	9-1-04	\$ 25,000	\$ 12,115	\$ 37,115
			9-1-05	25,000	10,902	35,902
			9-1-06	25,000	9,665	34,665
			9-1-07	30,000	8,275	38,275
			9-1-08	30,000	6,730	36,730
			9-1-09	30,000	5,155	35,155
			9-1-10	40,000	3,280	43,280
			9-1-11	40,000	1,100	41,100
				<u>\$ 245,000</u>	<u>\$ 57,222</u>	<u>\$ 302,222</u>

Street Improvements

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal</u>	<u>Annual Interest Payable</u>	<u>Total</u>
4-1-96	\$ 820,000	5.0% - 6.5%	10-1-04	\$ 55,000	\$ 26,525	\$ 81,525
			10-1-05	65,000	23,525	88,525
			10-1-06	70,000	20,150	90,150
			10-1-07	80,000	16,360	96,360
			10-1-08	85,000	12,110	97,110
			10-1-09	90,000	7,515	97,515
			10-1-10	95,000	2,565	97,565
				<u>\$ 540,000</u>	<u>\$ 108,750</u>	<u>\$ 648,750</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

SCHEDULE OF INDEBTEDNESS
June 30, 2004

WASTE WATER TREATMENT GENERAL OBLIGATION BONDS

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal</u>	<u>Annual Interest Payable</u>	<u>Total</u>
2-7-82	\$ 1,115,000	5.0%	1-1-05	\$ 35,000	\$ 3,500	\$ 38,500
			1-1-06	35,000	1,750	36,750
				<u>\$ 70,000</u>	<u>\$ 5,250</u>	<u>\$ 75,250</u>

WEST BRANCH HOUSING GENERAL OBLIGATION REFUNDING BONDS

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal</u>	<u>Annual Interest Payable</u>	<u>Total</u>
2-1-94	\$ 1,650,000	5.5% - 6.0%	11-1-04	\$ 125,000	\$ 34,693	\$ 159,693
			11-1-05	120,000	27,895	147,895
			11-1-06	115,000	21,257	136,257
			11-1-07	110,000	14,790	124,790
			11-1-08	100,000	8,650	108,650
			11-1-09	95,000	2,850	97,850
				<u>\$ 665,000</u>	<u>\$ 110,135</u>	<u>\$ 775,135</u>

MUNICIPAL PURCHASE CONTRACT ACT #98

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal</u>	<u>Annual Interest Payable</u>	<u>Total</u>
5-15-98	\$ 600,000	4.75%	5-1-05	\$ 64,000	\$ 13,015	\$ 77,015
			5-1-06	67,000	9,975	76,975
			5-1-07	70,000	6,792	76,792
			5-1-08	73,000	3,467	76,467
				<u>\$ 274,000</u>	<u>\$ 33,249</u>	<u>\$ 307,249</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

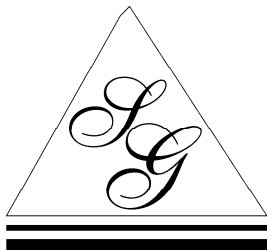
SCHEDULE OF INDEBTEDNESS
June 30, 2004

LITTLE LEAGUE BALL FIELD LIGHTING NOTE

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal</u>	<u>Annual Interest Payable</u>	<u>Total</u>
8-17-00	\$ 64,786	5.19%	8-31-04	\$ 5,000	\$ 2,064	\$ 7,064
			8-31-05	5,000	1,805	6,805
			8-31-06	5,000	1,546	6,546
			8-31-07	5,000	1,286	6,286
			8-31-08	5,000	1,026	6,026
			8-31-09	5,000	767	5,767
			8-31-10	<u>9,776</u>	<u>507</u>	<u>10,283</u>
				<u>\$ 39,776</u>	<u>\$ 9,001</u>	<u>\$ 48,777</u>

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION NOTE

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal</u>	<u>Annual Interest Payable</u>	<u>Total</u>
12-21-02	\$ 250,000	4.00%	6-30-05	\$ 13,023	\$ 3,370	\$ 16,393
			6-30-06	16,627	5,232	21,859
			6-30-07	17,302	4,557	21,859
			6-30-08	18,005	3,854	21,859
			6-30-09	18,736	3,123	21,859
			6-30-10	19,497	2,362	21,859
			6-30-11	20,288	1,571	21,859
			6-30-12	21,112	747	21,859
			6-30-13	<u>5,410</u>	<u>54</u>	<u>5,464</u>
				<u>\$ 150,000</u>	<u>\$ 24,870</u>	<u>\$ 174,870</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
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James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

September 3, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the City Council
City of West Branch
Ogemaw County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Branch, Ogemaw County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

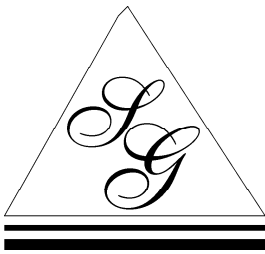
As part of obtaining reasonable assurance about whether the City of West Branch's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to management of the City of West Branch in a separate letter dated September 3, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of West Branch's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted immaterial matters involving the internal control over financial reporting and its operation that we have reported to management of the City of West Branch in a separate letter dated September 3, 2004.

This report is intended solely for the information and use of management, City Council, the Michigan Department of Treasury, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



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September 3, 2004

Members of the City Council
City of West Branch
Ogemaw County, Michigan

We have audited the financial statements of the City of West Branch, for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of West Branch's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of West Branch's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of West Branch's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of West Branch's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of West Branch's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of West Branch are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the City changed accounting policies as a result of adopting Statements of Governmental Accounting Standards (GASB Statements) no. 33, 34, 36, 37 and 38 and GASB Interpretation No. 6, in the year ended June 30, 2004. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Proprietary funds Statement of Net Assets. We noted no transactions entered into by the City of West Branch during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of West Branch's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of West Branch, either individually or in the aggregate, indicate matters that could have a significant effect on the City of West Branch's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with our accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of West Branch's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

While reviewing the records of the City of West Branch for the fiscal year ended June 30, 2004, we noted the following matters and other opportunities for increasing the operational efficiency of the City.

Segregation of Duties

We noted in the year ended June 30, 2003, that the City Treasurer is primarily responsible for collecting the cash receipts for the City, making bank deposits, and also reconciling the monthly bank accounts. We recommended someone not involved in collecting cash receipts or making bank deposits receive the bank statement unopened in the mail, review the bank statement and cancelled checks for any unusual items, and then forward it to the City Treasurer for reconciliation. Once reconciled, the same person should review the reconciliation for reasonableness and approve the reconciliation. We noted in the year ended June 30, 2004 that the duties were appropriately segregated between office employees.

Agency Funds

In the prior year, we noted that the General Fund held funds for outside service projects such as Irons Park Entertainment, Group Work Camp, and Fort Austin. We recommended they be accounted for in a general Trust and Agency Fund rather than the General Fund. We noted in the year ended June 30, 2004 that all of the funds had been moved to Trust and Agency funds.

Revenues and Expenditures of Housing Grants

We noted the Housing Director prepares spreadsheets to account for federal and state grant funds received by the City of West Branch. These spreadsheets are used to prepare the reimbursement requests under the grants. We recommend the spreadsheets be compared to the general ledger monthly to ensure the general ledger reflects the proper amounts. Also, any homeowner contribution receipts or disbursements must be accounted for in the general ledger through a payable account rather than revenue or expenses. Several audit adjustments were prepared to adjust the general ledger expense accounts to agree to the spreadsheets.

Members of the City Council
City of West Branch
September 3, 2004
Page Three

Cash Receipts

While reviewing cash receipts, we found several deposits in which the cash and checks received per the cash receipts journal did not agree to the cash and checks received per the deposit slip. All of the differences were related to hall deposits, parking tickets and petty cash replenishments which were explained by the Treasurer. We discussed this with the Treasurer who changed collections procedures immediately to ensure that the cash receipts journals will be in agreement with the deposit slips in the future.

Budget Control

We noted that the City's General and Special Revenue Funds included expenditures in some functions that exceeded appropriated amounts as a result of year end audit adjustments. We recommend that the City Council continue to amend the budgets for all funds as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

We would like to thank all of the personnel at the City of West Branch, especially Jane Tennant and Debbie Heisler for their assistance in the completion of our audit.

This information is intended solely for the use of the City Council and management of the City of West Branch and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grauh & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

CITY OF WEST BRANCH
OGEMAW COUNTY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2004

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Stephenson Gracik & Co., P.C.

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September 3, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City Council
City of West Branch
Ogemaw County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Branch as of and for the year ended June 30, 2004, which collectively comprise the City of West Branch's basic financial statements and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

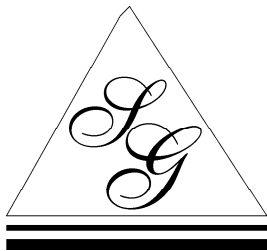
As part of obtaining reasonable assurance about whether the City of West Branch's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to management of the City of West Branch in a separate letter dated September 3, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of West Branch's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted immaterial matters involving the internal control over financial reporting and its operation that we have reported to management of the City of West Branch in a separate letter dated September 3, 2004.

This report is intended solely for the information and use of the City Council, management, the Michigan Department of Treasury, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



Stephenson Gracik & Co., P.C.

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

September 3, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of West Branch
Ogemaw County, Michigan

Compliance

We have audited the compliance of the City of West Branch with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of West Branch's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of West Branch's management. Our responsibility is to express an opinion on the City of West Branch's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of West Branch's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of West Branch's compliance with those requirements.

In our opinion, the City of West Branch complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of West Branch is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of West Branch's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Branch as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of West Branch's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, the Michigan Department of Treasury, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grain & Co., P.C.

CITY OF WEST BRANCH
Ogemaw County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2004

Findings - Financial Statements Audit

03-1

Segregation of Duties: The City Treasurer is primarily responsible for collecting cash receipts for the City, making bank deposits, and also reconciling the monthly bank accounts. We recommend someone not involved in collecting cash receipts or making bank deposits receive the bank statements unopened in the mail. They should review the bank statement and canceled checks for any unusual items, and then forward it to the City Treasurer for reconciliation. Once reconciled, the same person should review the reconciliation for reasonableness and approve the reconciliation. As a compensating control, we noted the City Council receives a listing of all bank and investment balances each month for their review and approval, and the Council approves all disbursements for payment. However, to increase controls over the bank accounts, we recommend the above procedures be implemented.

Status: During the year ended June 30, 2004, an additional office staff person was hired to ensure a proper segregation of duties exists. This finding has been appropriately addressed and cleared.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ending June 30, 2003.

CITY OF WEST BRANCH
Ogemaw County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

Summary of Auditors' Results

- (1) The auditors' report expresses an unqualified opinion on the basic financial statements of the City of West Branch.
- (2) No reportable conditions relating to the audit of the basic financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the basic financial statements of the City of West Branch, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No reportable conditions relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award program for the City of West Branch expresses an unqualified opinion.
- (6) The auditors' report disclosed no instances of audit findings relative to the major federal award program for the City of West Branch.
- (7) The program tested as a major program was: Community Development Block Grant CFDA Number 14.228.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) The City of West Branch did not qualify as a low-risk auditee.

Findings - Financial Statements Audit

There were no findings related to the audit of the basic financial statements for the year ending June 30, 2004.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ending June 30, 2004.

CITY OF WEST BRANCH
Ogemaw County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2003	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2004
<u>U.S. Department of Housing and Urban Development</u>							
Supportive Housing for the Elderly: Section 8 Assistance Payments	14.157	\$ 222,405	\$ 0	\$ 0	\$ 222,405	\$ 222,405	\$ 0
Passed through the Michigan Economic Development Corporation: Community Development Block Grant: Downtown Revitalization Project MSC 20219-EDIG	14.228	214,743	0	0	162,780	45,000	117,780
Passed through the Michigan State Housing Development Authority: Michigan Community Development Block Grant: Housing Program MSC-2002-1052-MDC Housing Program MSC-2002-1052-HO	14.228	475,600 182,900 <u>873,243</u>	77,897 48,159 <u>126,056</u>	(6,648) 3,848 <u>(2,800)</u>	131,165 102,661 <u>396,606</u>	158,686 124,674 <u>328,360</u>	(34,169) (18,165) <u>65,446</u>
Total U.S. Department of Housing and Urban Development		<u>1,095,648</u>	<u>126,056</u>	<u>(2,800)</u>	<u>619,011</u>	<u>550,765</u>	<u>65,446</u>
<u>U.S. Department of Justice</u>							
Bulletproof Vest Partnership Program	16.607	1,349	0	0	636	636	0
Community Oriented Policing Services Grant 1999SHWX0349	16.710	<u>115,592</u>	<u>38,521</u>	<u>6,420</u>	<u>28,922</u>	<u>35,342</u>	<u>0</u>
Total U.S. Department of Justice		<u>116,941</u>	<u>38,521</u>	<u>6,420</u>	<u>29,558</u>	<u>35,978</u>	<u>0</u>
<u>U.S. Department of Transportation</u>							
Passed through the Michigan Office of Highway Safety Planning: Challenge Award Grant PT-04-30	20.604	<u>5,000</u>	<u>0</u>	<u>0</u>	<u>4,998</u>	<u>4,998</u>	<u>0</u>
Total Federal Awards		<u>\$ 1,217,589</u>	<u>\$ 164,577</u>	<u>\$ 3,620</u>	<u>\$ 653,567</u>	<u>\$ 591,741</u>	<u>\$ 65,446</u>

CITY OF WEST BRANCH
Ogemaw County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the City's federal awards and does not present transactions that would be included in financial statements of the City presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the basic financial statements and the financial reports submitted to grantors.
3. Reconciliation to basic financial statements:

Federal revenue per the basic financial statements	\$ 535,787
Adjustments to federal revenue per the basic financial statements:	
CDBG grant receivable not accrued on the basic financial statements due to not meeting GASB 33 requirements	<u>117,780</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 653,567</u>

The City of West Branch also received a Michigan Department of Transportation Grant for a Non-Motorized Master Plan. The revenue received under the grant was \$26,669 in the fiscal year ending June 30, 2004. Approximately 60% of the revenue was federal pass-through revenue. However, the federal revenue under this grant fall under the Single Audit scope of the Michigan Department of Transportation, and therefore, are not shown in the Schedule of Expenditures of Federal Awards. The revenue is shown as state revenue in the basic financial statements.